

# EXHIBIT D

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## COURT REPORTING

### Transcript of **9th Public Meeting**

August 4, 2017

*Transcription for Robbins Russell*

Alderson Reporting  
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3 THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD

4 FOR PUERTO RICO

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8 SEXTA REUNION DE LA JUNTA

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11 9TH PUBLIC MEETING

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14 9:00 a.m.

15 August 4, 2017

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19 El Conquistador Business Meeting Facilities

20 Dr. Pedro Rossello Gonzalez

21 100 Convention Boulevard, Meeting Room 209

22 San Juan, Puerto Rico

1 PARTICIPANTS

2 BOARD MEMBERS:

3 JOSE B. CARRION (Chair), President and Principal  
4 Partner, HUB International CLC, LLC, San Juan, Puerto  
5 Rico

6 CARLOS M. GARCIA, CEO, BayBoston Managers LLC, and  
7 Managing Partner, BayBoston Capital L.P., Newton  
8 Centre, Massachusetts

9 HONORABLE ARTHUR J. GONZALEZ, Senior Fellow, New  
10 York University School of Law, New York, New York; and  
11 Former Judge, Bankruptcy Court, Southern District of  
12 New York, New York, New York

13 ANA J. MATOSANTOS, President, Matosantos  
14 Consulting, Sacramento, California

15 DAVID A. SKEEL, Professor, University of  
16 Pennsylvania Law School, Philadelphia, Pennsylvania

17

18 EX OFFICIO MEMBER:

19 ELIAS SANCHEZ SIFONTE, Former Secretary General of  
20 the Puerto Rico New Progressive Party

21

22

1 PARTICIPANTS (CONTINUED)

2 EXECUTIVE TEAM:

3 RAMON RUIZ COMAS, Executive Director

4 JAIME A. EL KOURY, Legal Counsel

5

6 PANEL 1:

7 ANDREW WOLFE, Adjunct Professorial Lecturer,  
8 School of International Service, American University,  
9 Washington, D.C.

10 GUSTAVO VELEZ, President and Founder, Inteligencia  
11 Economica

12 JOSE JOAQUIN VILLAMIL, Chairman and CEO, Estudios  
13 Tecnicos

14 PANEL 2:

15 RICARDO ROSSELLO NEVARES, Governor of Puerto Rico

16 JULIA KELEHER, Secretary of Education, Puerto Rico

17 RAUL MALDONADO, Treasury Secretary, Puerto Rico

18 PANEL 3:

19 JENNIFFER GONZALEZ COLON, Puerto Rico Resident  
20 Commissioner

21

22

1 PARTICIPANTS (CONTINUED)

2 PANEL 4:

3 RAMON M. RUIZ, Deputy Executive Director,  
4 Financial Oversight and Management Board

5 NEYSSA VARELA, Past President, Associated General  
6 Contractors, Puerto Rico Chapter

7 OMAR MARRERO, Executive Director, Puerto Rico  
8 Public-Private Partnerships Authority

9 PANEL 5:

10 DR. NELSON I. COLON TARRATS, President, Community  
11 Foundation of Puerto Rico

12 RAFAEL CORTES DAPENA, President, Angel Ramos  
13 Foundation

14 DRA. NILDA MORALES, President and CEO, Education  
15 and Rehabilitation Society of Puerto Rico (SER de  
16 Puerto Rico)

17 APRIL MANZANO, Finance Director, SER de Puerto  
18 Rico

19 SAMUEL GONZALEZ CARDONA, President and CEO, United  
20 Way of Puerto Rico

21

22

1 PARTICIPANTS (CONTINUED)

2 PANEL 6:

3 ELSIE RUIZ SANTANA, J.D., M.S.S., Director,  
4 Graduate School on Social Sciences, Pontifical Catholic  
5 University of Puerto Rico

6 DR. ILIA C. ROSARIO NIEVES, Director, Graduate  
7 School on Psychology, Pontifical Catholic University of  
8 Puerto Rico

9 ISABEL RULLAN, Co-Founder and Managing Director,  
10 ConPRmetidos

11 PANEL 7:

12 MANUEL J. FERNOS LOPEZ-CEPERO, President, Inter  
13 American University of Puerto Rico

14 ERNESTO VAZQUEZ BARQUET, President, Polytechnic  
15 University of Puerto Rico

16 DR. CARMEN MIRABAL, Institutional Development  
17 Director, Liceo de Arte y Tecnologia

18 PANEL 8:

19 CLARISSA JIMENEZ, President and CEO, Puerto Rico  
20 Hotel and Tourism Association

21 MIGUEL VEGA, Chairman of the Board, Puerto Rico  
22 Hotel and Tourism Association

1 PARTICIPANTS (CONTINUED)

2 PANEL 8 (CONTINUED):

3 AGUSTIN ARELLANO, Chief Executive Officer,  
4 Aerostar Airport Holdings

5 ARNALDO CRUZ, Director of Research and Analytics,  
6 Foundation for Puerto Rico

7 PANEL 9:

8 FELIPE PALACIOS, Chairperson, Puerto Rico  
9 Pharmaceutical Industry Association

10 KERRI INGALLS, Vice President and Site Leader,  
11 Amgen Manufacturing Ltd., Juncos, Puerto Rico

12 LUCY CRESPO, CEO, Puerto Rico Science, Technology  
13 and Research Trust

14 PANEL 10:

15 IGNACIO ALVAREZ, President and COO, Popular, Inc.

16 SEBASTIAN VIDAL, Executive Director, Parallel 18

17 ALBERTO LUGO, President, Invid

18 LORENZO DRAGONI, Board Member, Aireko Foundation

19 RICARDO ALVAREZ DIAZ, President, Puerto Rico  
20 Builders Association

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1 P R O C E E D I N G S

2 CHAIRMAN CARRION: -- Management Board for Puerto  
3 Rico and we're going to be -- yes, we're giving out the  
4 roll. (Inaudible) from you.

5 (Speaking Spanish)

6 CHAIRMAN CARRION: And I'd like to ask attendance  
7 to please cooperate. We all have in the past to  
8 conducting a productive meeting including keeping cell  
9 phones in silent mode and abstaining from conversation  
10 and comments. Let's proceed and I'd like to conduct a  
11 roll call to determine whose present and quorum. Mr.  
12 Andrew Biggs?

13 MR. BIGGS: Present.

14 CHAIRMAN CARRION: Mr. Carlos Garcia?

15 MR. GARCIA: Present.

16 CHAIRMAN CARRION: Judge Arthur Gonzalez? By  
17 phone, Judge Arthur Gonzalez? All right, we'll --

18 JUDGE GONZALEZ: Present.

19 CHAIRMAN CARRION: Thank you, Judge. (Inaudible)  
20 Gonzalez will be absent from today's meeting. Ana  
21 Matosantos?

22 MS. MATOSANTOS: Present.

1 CHAIRMAN CARRION: And Professor David Skeel?

2 David?

3 MR. SKEEL: I'm present.

4 CHAIRMAN CARRION: Thank you, David.

5 MR. SKEEL: I'm present.

6 CHAIRMAN CARRION: Yes, thank you, David. The Ex  
7 Officio Member of the Governor and his representative,  
8 Christian Sobrino with us here today.

9 MR. SOBRINO: Present.

10 CHAIRMAN CARRION: Welcome. A quorum is present,  
11 and now I'd like to call the meeting to order.

12 I would like to ask General Counsel, Mr. El Koury,  
13 to act as secretary for this meeting.

14 And again, I would like to extend a heartfelt  
15 welcome to Mr. Christian Sobrino, this being his first  
16 public meeting since his appointment as the Governor's  
17 representative to our Board and I would like to take  
18 this opportunity to thank Elías Sánchez for his work  
19 and contribution and for his service to the Board  
20 during his tenure.

21 This morning, I would like to recognize the  
22 presence of Mr. Gerry Portela, Executive Director of

1 the Fiscal Agency -- Fiscal Agency and Financial  
2 Advisory Authority and welcome Gerry, and his  
3 associated colleagues.

4 I'd like to thank all of you in attendance, all of  
5 those here today for this meeting, the ninth meeting of  
6 the Board being held in Puerto Rico and to let  
7 everybody know once again that anyone who is watching  
8 the livestream of the website via the Board's website  
9 [www.oversightboard.pr.gov](http://www.oversightboard.pr.gov). I am pleased to say that  
10 the audio of the meeting via the website is available  
11 in English and in simultaneous Spanish translation. If  
12 you log into the English website, the audio will be in  
13 English. And if you log into the Spanish website, you  
14 will hear the simultaneous translation. So, welcome to  
15 all of you, all of those who are maybe listening in or  
16 watching via the website.

17 Today, we will be dealing with the following  
18 topics that are part of our agenda. Number one,  
19 approval of the June 30th, 2017 meeting minutes; report  
20 by the Chair; administrative matters and the fourth  
21 point, the presentation of the proposed Fiscal Plan for  
22 the Public Corporation for the Supervision and

1 Insurance of Cooperatives, known as COSSEC, by its  
2 acronym in Spanish; assessment and recommendations of  
3 the proposed Fiscal Plan for COSSEC; public comment on  
4 the proposed Fiscal Plan for COSSEC; discussion and  
5 consideration for certification of the proposed Fiscal  
6 Plan for COSSEC. Number five is discussion of an  
7 independent debt investigation and the establishment of  
8 a special committee. Number six is discussion of  
9 pension reforms and number seven is discussion and  
10 public comment and proposed actions regarding  
11 rightsizing measures in the Commonwealth Fiscal Plan.

12 The Board will not be considering today the Fiscal  
13 Plan of the University of Puerto Rico although we are  
14 pleased to announce that the Board has received from  
15 the University its proposed Fiscal Plan, which the  
16 Board will promptly review and eventually certify  
17 should it comply with the certification requirements.

18 Now, let's begin today's work.

19 Our first order of business is to approve the  
20 meetings of the Board's last meeting held on June 30th,  
21 2017. The proposed meetings are included in your  
22 meeting materials. Does anybody have any questions

1 about these minutes?

2 (No response.)

3 CHAIRMAN CARRION: There being no questions, I  
4 would like to ask for a motion to approve said minutes.

5 MS. MATOSANTOS: Mr. Chair, I'd like to move for  
6 approval of the minutes.

7 CHAIRMAN CARRION: Would anybody like to second  
8 that motion?

9 MR. GARCIA: Mr. Chairman, I will second that  
10 motion.

11 CHAIRMAN CARRION: I would like to ask for a voice  
12 vote, please.

13 Those in favor, please say yes.

14 (A chorus of yeses.)

15 CHAIRMAN CARRION: Having no opposition and all  
16 members having voted in favor of the motion, the  
17 minutes are approved.

18 Let me continue now by providing the Board with my  
19 brief report. The Board, as you know, has been  
20 established under PROMESA and Puerto Rico Oversight  
21 Management and Economic Stability Act and the Board's  
22 purpose is to provide a method for Puerto Rico to

1 achieve fiscal responsibility, including appropriate  
2 fiscal reforms, access to capital markets and  
3 infrastructure revitalization.

4 The Board also feels compelled to embrace the  
5 urgent task of working with the people in the  
6 government of Puerto Rico to create the necessary  
7 foundation for economic growth and to restore  
8 opportunity to our people.

9 At our previous public meeting, I have recounted  
10 the Board's steps as required or allowed by PROMESA to  
11 accomplish its statutory mandates. Today, I will  
12 restrict my remarks to progress made after the Eighth  
13 Public Meeting on June 30th of this year.

14 Earlier this week, we issued our first Annual  
15 Report to the President, Congress and the Governor of  
16 Puerto Rico and the legislature as required by PROMESA.  
17 In that report, we reviewed the commerce activities and  
18 milestones of our first year in operation and singled  
19 out efforts of the Board at developing a process for  
20 selecting, implementing and evaluating critical  
21 infrastructure projects under Title V of PROMESA.

22 In addition, recognition of the vital role that

1 economic development plays in the Board's efforts, the  
2 Board made several recommendations in areas which the  
3 federal government can assist the government of Puerto  
4 Rico and the Board to achieve the objectives of PROMESA  
5 as well as to unleash greater, more dynamic economic  
6 activity in the territory.

7 One of those recommendations was to grant Puerto  
8 Rico the flexibility and discretion to shape federal,  
9 social welfare programs to incentivize work.

10 (pause)

11 CHAIRMAN CARRION: All right. We have the  
12 majority of the folks here, so when they come back on,  
13 we'll -- we'll circle back to that vote but in order to  
14 move forward, those in favor, please say yes.

15 (A chorus of yeses.)

16 CHAIRMAN CARRION: Yes. The -- the resolution  
17 passes with the majority of members present.

18 MR. BIGGS: Mr. Chairman, I would like to make the  
19 following motion. Between the adjournment of this  
20 meeting and the opening of the Board's next public  
21 meeting, the Board may consider an executive session  
22 any and all matters it is authorized to consider under

1 PROMESA including one, any certification determinations  
2 authorized by PROMESA including certification  
3 determinations under Section 206 of PROMESA. Second,  
4 any submissions or authorizations authorized by PROMESA  
5 and third, any filings authorized under Title III of  
6 PROMESA in each case that are set forth as part of the  
7 vote to convene such an executive session. The Board  
8 may also act by unanimous written consent between  
9 meetings in accordance with the by-laws with such  
10 consent to include consent by e-vote.

11 MR. GARCIA: Mr. Chair, I will second that motion.

12 CHAIRMAN CARRION: I'd like to ask for a voice  
13 vote. Those in favor of the motion, please say yes.

14 (A chorus of yeses.)

15 CHAIRMAN CARRION: And David and Judge Gonzalez,  
16 would you be voting affirmatively as well for the  
17 motion that Ana Matosantos previously presented?

18 (A chorus of yeses.)

19 CHAIRMAN CARRION: All right. So that would also  
20 -- let the record reflect that -- that resolution  
21 passed unanimously. All the members having voted in  
22 favor of the motion, the resolution is approved and has

1 passed unanimously.

2 Now, I would like to ask Ana Matosantos to give us  
3 a report on the actions the Board took Wednesday to  
4 commence an independent investigation of Puerto Rico's  
5 debt.

6 MS. MATOSANTOS: Thanks, Mr. Chair. As you're  
7 aware and as the Board announced on Wednesday, the  
8 Board intends to initiate a comprehensive investigation  
9 of Puerto Rico's debt and its relationship with fiscal  
10 crisis consistent with the procedures for conducting a  
11 PROMESA investigation adopted by the Board on May 26th,  
12 2017. The investigation will include a review of the  
13 fiscal crisis, its contributors, an examination of  
14 Puerto Rico's debt, an issuance -- and its issuance  
15 including disclosure and selling practices when  
16 issuance of prior debt. The Board will conduct its  
17 investigation pursuant to the authority granted to it  
18 by Congress and the President of the PROMESA.

19 AS you know, the Board has been specifically given  
20 the authority by Congress under PROMESA to conduct an  
21 investigation of Puerto Rico's debt and its connection  
22 to the current fiscal crisis. We consider this

1 investigation an integral part of our mission to  
2 restore fiscal balance and economic opportunity and to  
3 promote Puerto Rico's re-entry into capital markets  
4 pursuant to our responsibilities under law. To carry  
5 the investigation forward, I recommend that a special  
6 committee of the Board be established for the purposes  
7 of among other things, developing in more detail, the  
8 scope of the investigation and appointing an  
9 independent investigator to carry out the  
10 investigation.

11 CHAIRMAN CARRION: Thank you, Ana. Following up  
12 on your recommendation and pursuant to Section 3.9 of  
13 the Board's By-laws, I would like to proceed to  
14 establish the special committee of the Board that will  
15 be in charge of this investigation and hereby designate  
16 and appoint Board members Judge Arthur Gonzalez, Ana  
17 Matosantos, Professor David Skeel and myself to  
18 constitute such special committee.

19 MS. MATOSANTOS: Thank you, Mr. Chair. As we  
20 continue to develop the perimeters of the investigation  
21 and move forward with the employment of the independent  
22 examiners, I think we should be provided this

1 information and I think that as required under PROMESA,  
2 we should make the findings from this investigation  
3 public.

4 CHAIRMAN CARRION: So noted. Now, let's proceed  
5 to the presentation of the proposed Fiscal Plan for the  
6 Public Corporation of the Supervision and Insurance  
7 Cooperatives (COSSEC). I would like to welcome once  
8 again Mr. Portela, the Executive Director of the Puerto  
9 Rico Fiscal Agency and Financial Advisor Authority who  
10 will present the proposed Fiscal Plan for the Public  
11 Corporation for the Supervision and Deposit Insurance  
12 of Puerto Rico (COSSEC). After his presentation, the  
13 Board may proceed to ask questions about the proposed  
14 Fiscal plan.

15 Welcome Gerry.

16 MR. PORTELA: Good morning to all members of the  
17 Financial Oversight and Management Board of Puerto  
18 Rico, Executive Director, Natalie Jaresko, advisors and  
19 general public in attendance. Before you, Gerardo  
20 Portela, Executive Director of the Puerto Rico Fiscal  
21 Agency and Financial Advisory Authority (inaudible).  
22 Today, we'll be discussing the Fiscal Plan for the

1 Corporation for the Supervision and Insurance of the  
2 Cooperatives, better known as COSSEC, for its Spanish  
3 acronym. COSSEC, though designed as a cover entity by  
4 the Oversight Board has not issued public debt, is not  
5 a debtor of obligations that require restructuring, has  
6 no structural deficit and is able to pay all  
7 operational expenses and is not dependent on the  
8 central government funds. COSSEC is the insurer of  
9 deposits and shares in the savings and loans  
10 cooperatives (inaudible) and in such capacity faces  
11 heightened risks related to the claims from insured  
12 clients of Cooperatives due to potential essential  
13 losses (inaudible) invested in bonds issued by the  
14 government of Puerto Rico and its instrumentalities  
15 and/or a run-off of client deposits and shares through  
16 a perceived lack of confidence in the strength of  
17 confidence in the strength of the Cooperatives.

18 Those risks are shared by traditional financial  
19 institutions as well. The Cooperative movement has a  
20 strong following in Puerto Rico with 160 Cooperatives  
21 holding around \$7.9 billion of deposits and shares for  
22 nearly one million customers. This compares

1 approximately to \$45 billion of deposits held by banks  
2 operating in Puerto Rico. COSSEC has adequate capital  
3 to perform its regulatory and insurance duties under  
4 ordinary and relatively stress scenarios.

5 Cooperatives have gained popularity in Puerto Rico  
6 as customers feel a greater sense of loyalty to their  
7 local institutions especially given that the coops are  
8 owned by their members or associates rather than  
9 stockholders. For a (inaudible) in COSSEC, it is of  
10 great importance to collaborate with the government and  
11 the Oversight Board's efforts to proactively seek  
12 alternatives to strengthen the savings and loans  
13 Cooperatives through reforms and other actions that  
14 will support the Cooperatives and their key involvement  
15 and participation in the economic development of Puerto  
16 Rico.

17 Additional, COSSEC (inaudible) in cooperation with  
18 the Oversight Board have requested technical assistance  
19 to the National Credit Union Association to further  
20 strengthen the Cooperatives and make it a more robust  
21 and strong financial sector in Puerto Rico's economy.  
22 Puerto Rico's economy is the safeguard in diversity of

1 capital structures offered by Cooperatives to ensure  
2 balanced, responsible and sustainable economic model  
3 going forward. The Fiscal Plan analyzes COSSEC's  
4 financial condition and its ability to meet the  
5 challenges that may be posed by the Puerto Rico  
6 renegotiation and set forth structural reforms that  
7 strengthen COSSEC'S governance and regulatory powers.  
8 This Fiscal Plan is motivated by the potential role of  
9 Cooperatives as a community-based financial institution  
10 and the measures contemplated therein are designed to  
11 increase their capacity and efficiency in providing  
12 services to their members or associates. They provide  
13 financial services to their members that contribute to  
14 economic development while abiding by cooperative  
15 principles that emphasize the importance of service to  
16 the community and a democratic control.

17 Now, I will leave you with Mr. Alejandro  
18 (inaudible), chief operating officer of FAFAA, who will  
19 present to the Oversight Board a summary of the COSSEC  
20 Fiscal Plan.

21 MR. ALEJANDO (Inaudible). Good morning. Before I  
22 begin, I would like to point out that COSSEC is

1 currently directed by the Cooperative Development  
2 Commissioner, (Inaudible). The Commissioner has  
3 excused herself from this board meeting as she is  
4 currently attending previously scheduled personal  
5 matters. Today, COSSEC is represented by Mr. Pedro  
6 (Inaudible) Assistant Vice President and Mr.  
7 (Inaudible) senior analyst and special aide to the  
8 Executive Director, who are here with us to answer any  
9 technical inquiries that the Board may have and I would  
10 ask they come forward and sit near us, with us.

11 Now, to begin, COSSEC main rules include insurer  
12 of deposits and shares up to \$250,000; two, regulator  
13 of all savings and loans; two, regulator of all savings  
14 and loans cooperatives and non-financial cooperatives;  
15 and, three, promoter of the cooperative model. COSSEC  
16 does not have a structural deficit and comfortably  
17 covers its operating costs, including employee  
18 benefits. It is not dependent on general funds but on  
19 premiums paid by member cooperatives and interests on  
20 its investments. Now, as said by Mr. Portela, COSSEC's  
21 risk is mainly driven by external factors and  
22 reputational risks that stem from the fact that some, I

1 repeat some, of the cooperatives have higher  
2 concentration risks in Puerto Rico bonds and the  
3 reduction and value of set bonds due to a renegotiation  
4 may impact these cooperatives' capital and income.  
5 Although recognized as a serious risk, this Fiscal Plan  
6 confirms that COSSEC has the ability to withstand the  
7 impact of the renegotiation under relatively stressed  
8 scenarios. The cooperative system is a pillar of the  
9 Puerto Rico economy serving as the main alternative to  
10 the commercial banking sector.

11 While its funding sources have remained stable  
12 over the years, the cooperatives have been able to grow  
13 their asset base. System assets experienced five  
14 percent growth between fiscal year 2012 and fiscal year  
15 2016. This was primarily due to a \$400 million  
16 increase in loan balances while cash and other assets  
17 remain flat. Some cooperatives are heavily invested  
18 in securities issued by the Puerto Rican government and  
19 its instrumentalities. Although the cooperative system  
20 loan portfolio has been performing adequately showing  
21 great resilience during the economic recession, there  
22 is as high degree of concentration in Puerto Rico debt

1 along the cooperative systems that would compromise the  
2 solvency of some cooperatives. Puerto Rico government  
3 securities account for approximately 65 percent of the  
4 cooperatives' total investment portfolio. In order to  
5 gauge COSSEC's ability to withstand a Puerto Rico debt  
6 renegotiation by its members, the COSSEC team along  
7 with the FAFAA Oversight Board's guidance performed  
8 four different stress tests in this Fiscal Plan. These  
9 stress scenarios were completed in accordance with the  
10 guidelines set by the Fiscal Oversight Board.

11 The first analysis, the capital reserve report.  
12 This is the actuarial report that measures the  
13 sustainability of cooperatives based on the ability to  
14 amortize the government's securities losses over time  
15 by projecting historical return on assets. During the  
16 second half of fiscal year 2017, COSSEC's management  
17 requested an updated version of this actuarial report  
18 for fourth quarter 2016 financial data and the market  
19 value of its investments as of April 2017.

20 The second analysis was based on the same report,  
21 the net research were impacted by subtracting total  
22 Puerto Rico debt losses instead of its amortized amount

1 under regulatory accounting treatment provided by Act  
2 220.

3 The third analysis -- a short term liquidity  
4 analysis stressing the cash and equivalent items  
5 available to (inaudible) subtracting cross deposits  
6 among cooperatives and under deposit runup scenarios in  
7 order to project possible individual needs.

8 Then the fourth analysis which we call the NCUA  
9 analysis, it was replicated by COSSEC. The NCUA  
10 performed an analysis of the Puerto Rico cooperative  
11 system in March 2016. COSSEC updated the report to  
12 include market -- market -- the market value of Puerto  
13 Rico government securities as of April 2017 and the  
14 most recent data available for all insured  
15 cooperatives. This analysis combined capital and  
16 liquidity considerations, so it combines the contents  
17 of the first two analysis. All scenarios reinforced  
18 that under current regulatory framework, COSSEC will  
19 have the adequate capital to perform its duties even  
20 under relatively stressed scenarios.

21 COSSEC also created a liquidity vehicle to  
22 strengthen its position. The newly created cooperative

1 will provide depositor confidence and insure the long-  
2 term sustainability of the coop system and the  
3 corporation. The program is designed to aggregate and  
4 organize system-wide resources to be deployed to  
5 strengthen the capital base of individual cooperatives  
6 and provide additional liquidity if needed.

7 The initial proposal totaling \$533 million in  
8 combined commitments is comprised of approximately \$383  
9 million available for capital injections and an  
10 additional \$150 million for liquidity in exchange for  
11 loan assets. The program will also aim to steer the  
12 system towards a path of long-term sustainability. The  
13 oversight and implementation of the program will be  
14 administered by the cooperative's technical, financial  
15 taskforce as per Memorandum of Understanding which will  
16 be executed.

17 Under the MOU, the parties will exchange  
18 information and provide assistance in connection with  
19 the monitoring of the financial situation, crisis  
20 management, recovery and mitigation. Simultaneously,  
21 the governance reform must be implemented as part of  
22 the new governance model, the committee will steer

1 COSSEC while its Fiscal Plan is in effect and being  
2 implemented. This committee shall exercise all powers  
3 granted to COSSEC's Board of Directors by virtue of any  
4 other law or regulation of the government of Puerto  
5 Rico. The committee shall be the operating arms  
6 spearheading reforms and other actions to further  
7 strengthen the cooperative system and the corporation  
8 and insure an effective and timely execution of the  
9 Fiscal Plan measures.

10 In summary, the plan one, confirms COSSEC's  
11 capacity to perform its regulatory and insurance duties  
12 with adequate capital to support the system under  
13 ordinary and relatively stress scenarios; two,  
14 implements the right governance structure to steer  
15 COSSEC through the current challenges and  
16 implementation of necessary reforms; three, establishes  
17 a coordinated liquidity and capital response to the  
18 Coop-Self initiative with system-wide resources.

19 We are certain that the COSSEC Fiscal Plan  
20 addresses system weaknesses with the utmost  
21 responsibility and that it aims to maintain the  
22 cooperative system as one of the main pillars of the

1 economy.

2 This administration strongly believes that the  
3 measures set forth for the consideration and approval  
4 of the Board will comply with the requirements in  
5 PROMESA while improving COSSEC's role through enhanced  
6 oversight and stronger governance structure.

7 CHAIRMAN CARRION: Thank you, very much, Mr.  
8 (inaudible). Do any Board members have any questions  
9 for management of COSSEC or Mr. Portela or Mr.  
10 (inaudible)?

11 MS. MATOSANTOS: I do but I'll follow other  
12 members if they have questions.

13 CHAIRMAN CARRION: Mr. Garcia?

14 MR. GARCIA: My first question is could you please  
15 expand on what's going to be the composition of that  
16 new committee and what would it entail for that  
17 committee to be implemented and what's the timing that  
18 you currently envision for that committee to be in  
19 place?

20 MR. PORTELA: The committee would be comprised of  
21 three members. One will be the cooperative  
22 commissioner and chairman of the Board of Directors of

1 COSSEC. The second will be the Commissioner of the  
2 Financial Institutions of Puerto Rico and the Executive  
3 Director of FAFAA.

4 MR. GARCIA: Thank you.

5 CHAIRMAN CARRION: Did you have a question, Ms.  
6 Matosantos?

7 MS. MATOSANTOS: Can you -- the information you  
8 shared around the fact that 65 percent of COSSEC's  
9 assets are invested in Puerto Rico's securities was  
10 striking. Can you talk to us a bit more about the  
11 stress case scenarios and how they've been incorporated  
12 into the Fiscal Plan?

13 MALE: Well, the first -- it's not 65 percent of  
14 COSSEC's assets are COSSEC's investment portfolio --

15 MS. MATOSANTOS: Investment portfolio, sorry.

16 MALE: -- is -- does not have a high concentration  
17 of Puerto Rico investment. It's more the stress tests  
18 were performed throughout the Cooperative system,  
19 taking into account that Cooperative members are --  
20 have individual investment policies and portfolios.  
21 There were four stress tests that were performed. The  
22 first one takes into account the special act 220 which

1 allows for a 15-year amortization of losses in Puerto  
2 Rico investments which are classified as special  
3 investments. The second one is the -- does not take  
4 into account that cushion, that 15-year period of  
5 amortization and is obviously a more acid test than the  
6 first one. The third one then took into consideration  
7 different run-off scenarios. Historically, the run-off  
8 percentage has been fairly low, under three percent but  
9 we took -- we were very conservative and stressed  
10 (inaudible) to five, 10, 20 percent scenarios and still  
11 COSSEC had enough capital to withstand such run-offs.  
12 Of course there is a timing issue and something that  
13 cannot be predicted in terms of timing and necessity  
14 but it was taken into consideration in the stress test  
15 and reflected a very good resilience from COSSEC's  
16 perspective. And then the fourth analysis, which is  
17 the one that replicates NCUA exercise, takes into  
18 account both scenarios, the capital stress and the  
19 liquidity scenario and it combines them and it paints a  
20 picture of a relatively strong COSSEC ability to  
21 respond to a possible scenario of stress and in  
22 addition to that, that's why we created that Coop-Self

1 instrument so we could raise capital and liquidity if  
2 it was necessary after getting into the emergency  
3 situation.

4 MS. MATOSANTOS: Sorry, I just want to double back  
5 on the liquidity point because I was referring to the  
6 statement on Page 13 of the Fiscal Plan where you talk  
7 about Puerto Rico government securities account for 65  
8 percent of the (inaudible) portfolio and I want to  
9 understand, your expansion is the issue that that's not  
10 necessarily -- that that is an issue of particular  
11 cooperatives and not necessarily (inaudible)?

12 MALE: Yes. The 65 percent takes into account the  
13 total cooperatives so it's not necessarily one  
14 cooperative might have more concentration than others.  
15 And if that is the case, not all cooperatives are  
16 created equal. Some cooperatives may show weakness but  
17 it's totally unrelated to any type of investment. It's  
18 more of a business as usual type of deal. Though, it  
19 is important that it is highlighted that not all  
20 cooperatives are under the same situation.

21 MS. MATOSANTOS: Can you talk to us about a bit  
22 more about, you know, NCUA and the technical assistance

1 work they provided to date and some of your sense of  
2 how they might assist going forward?

3 MALE: Yes. Well, NCUA, we sent a communication  
4 and we established some cooperation with regards to  
5 technical assistance and technical assistance in this  
6 sense means more support for an aspirational transition  
7 of COSSEC to move to a more robust governance  
8 structure, to a more robust examination process, to  
9 establish more controls and to ensure that these  
10 situations that have occurred in the past don't occur  
11 again. The technical assistance has been offered but  
12 we are still in the conversation periods in looking to  
13 see what the opportunity is and what we can gather from  
14 them and collaborate.

15 MR. PORTELA: I would like to add and go back to  
16 the 65 percent, Ana. Basically, Ms. Matosantos, it's  
17 around \$976 million approximately, the investment  
18 portfolio comprise of around 90 Cooperatives but a very  
19 important fact regarding the stress scenario is that  
20 GDB which represents approximately 44 percent of that  
21 portfolio is -- you know, we're not including the RSA,  
22 we're not including the up-tick on the pricing of the

1 funds. It's basically on an amortized cost of 60  
2 percent and the scenarios passed so basically all  
3 scenarios were reinforced that that COSSEC will have  
4 adequate capital. So, I just want to add to that as  
5 well.

6 MS. MATOSANTOS: And you mentioned the Self  
7 program and other efforts embedded in the Fiscal Plan  
8 to ensure the continued assets, so I appreciate that.  
9 Thanks.

10 MR. GARCIA: If I may, I would like to ask the  
11 Executive of COSSEC if they could give us just a  
12 general overview of how they feel what is the current  
13 status of the Cooperatives as a whole. I mean where do  
14 they see issues at right now? What are they doing on a  
15 practical basis, on a day-to-day basis to deal with it  
16 and also about their commitment to the implementation  
17 of this Fiscal Plan.

18 MALE: Good morning. Basically, what we're doing  
19 right now is monitoring the critical capacity of the  
20 Cooperatives on a weekly basis. Some Cooperative may  
21 be having a little bit of trouble meeting their  
22 standards and deposit, but right now, there's not a big

1 issue on that. Last year, there was a run of deposits  
2 around April. It was below 2.4 percent. It was and  
3 all Cooperatives were able to manage that run quite  
4 well. And right now, about -- the biggest issue is  
5 like we said in our Fiscal Plan, is the Puerto Rico  
6 bonds. That's the main issue with Cooperatives right  
7 now.

8 MR. GARCIA: Would you speak in general of the  
9 total number of Cooperatives? I mean how many do you  
10 feel that are facing liquidity issues as a whole?

11 MALE: As of this moment, maybe about five  
12 Cooperatives that might have liquidity issues and we're  
13 dealing with them on a daily basis. Right now, we're  
14 trying to implement with them some considerations,  
15 voluntarily considerations, so a bigger Cooperative can  
16 absorb the smaller ones. Right now, there's not a  
17 major concern about these Cooperatives.

18 MALE: Yes, I would like to add to that even not  
19 having the Fiscal Plan certified, COSSEC has the legal  
20 capacity to enforce a lot of powers that allow them to  
21 intervene and to manage or administer any cooperative  
22 that faces liquidity or capital issues. So, the

1 framework is there. It's more that our goal with this  
2 Fiscal Plan is to strengthen the ability to execute  
3 those powers at all. So, they are in fact already  
4 implementing some of the preventive measures.

5 MR. GARCIA: And does COSSEC feel that the Fiscal  
6 Plan that is being currently presented to the Board  
7 will give them additional tools to be able to deal I  
8 mean with some of the challenges that the Cooperatives  
9 are facing at this point?

10 MALE: Yes, we do.

11 MR. GARCIA: And are you also committed to the  
12 implementation of this Plan?

13 MALE: Yes, we are very committed to  
14 implementation of the Plan once it's certified by the  
15 Board.

16 MR. GARCIA: And my last question is could you  
17 tell us how the funding, of the COSSEC, the Coop-Self  
18 program will be obtained?

19 MALE: Yes. Essentially, the Coop-Self vehicle  
20 would include the COSSEC available cash which COSSEC  
21 has \$122.5 million in capital available. It has \$107.9  
22 million in reserve for expected losses which are

1 already recognized in 2016 financial statements. It  
2 has an additional \$52.5 million in reserve for  
3 unexpected losses and then there is the opportunity to  
4 enter into an agreement in which the Coop would  
5 compromise or pledge additional cash and the compromise  
6 to purchase loans up to \$150 million for a total of  
7 \$533 million in additional capital that could be  
8 readily injected into the system.

9 MR. GARCIA: Thank you for your responses and I  
10 have no further questions, Mr. Chair.

11 MS. MATOSANTOS: We appreciate, you know, the  
12 stress test, the attention you're taking to this  
13 matter. I'm a 15-year credit union consumer on the  
14 state-side of the equation and a big believer in the  
15 credit union system and their role in overall banking.  
16 You know, looking at the exposure and the inter-  
17 relatedness with where the assets are invested, and the  
18 internal relationship with the overall debt  
19 restructuring situation we find ourselves in, as well  
20 as overall the economic situation and the stress,  
21 appreciate the efforts made thinking closely about  
22 Natalie's assessment of this and steps that might be

1 necessary to ensure that there's adequate support  
2 oversight in place to ensure a continued stable system.

3 CHAIRMAN CARRION: Thank you, Ms. Matosantos. Any  
4 additional questions from the members present? David,  
5 Arthur, any questions?

6 Then, I would like to ask our Executive Director -  
7 -

8 MR. GONZALEZ: I don't have any. Thank you.

9 CHAIRMAN CARRION: Yeah, thank you, Arthur. Then  
10 I would like to proceed to ask our Executive Director,  
11 Ms. Natalie Jaresko, to walk us through the process by  
12 which the Board reviewed and assessed COSSEC's proposed  
13 Fiscal Plan and to present to the Board certain  
14 recommendations regarding the same.

15 MS. JARESKO: Thank you, Mr. Chairman. The Board  
16 and its advisors reviewed COSSEC's proposed Fiscal Plan  
17 for compliance with PROMESA and with the same  
18 principles against which we've evaluated the other  
19 Fiscal Plans. Compliance with PROMESA meaning the  
20 successful fulfillment of Section 201 of PROMESA which  
21 outlines 14 statutory requirements all Fiscal Plans  
22 must achieve. Adherence to the principles outlined by

1 this Board for a once and done approach which ensures  
2 that the plans achieve sustainability and balance  
3 without further measures not already included in the  
4 Plan. As was noted, COSSEC has not issued any debt and  
5 is not a debtor of obligations that require  
6 restructuring. As the insurer of Puerto Rican  
7 Cooperatives, however, COSSEC may face higher demands  
8 on its resources as the institutions that it covers are  
9 affected by losses on the Puerto Rican debt that they  
10 hold as investments. COSSEC has modeled aggressive  
11 stress scenarios comparable to previous analyses done  
12 with federal assistance.

13 While the Board and its advisors recognize the  
14 economics of COSSEC's plan and the reserves it has set  
15 aside for assisting Cooperatives, additional  
16 modifications are needed to ensure the long-term  
17 stability and proper regulation of the Cooperative  
18 system. We wish to stay ahead of any potential  
19 problems.

20 So, first, the Plan should reflect the impact of a  
21 more extensive and realistic resource plan based  
22 primarily on those updated stress scenarios. The

1 Fiscal Plan should be amended to include a detailed  
2 implementation plan with dates for the Coop-Self  
3 program that is also based primarily on the updated  
4 stress scenarios and includes a sufficient human and  
5 financial resource requirements, internal and external  
6 necessary for the success of the program.

7 Second, the Fiscal Plan should be amended to  
8 include a reform plan that re-defines the mission and  
9 governance of COSSEC to eliminate conflicting  
10 regulatory and insurance missions and captive  
11 governance or moves Cooperatives to federal charters  
12 and oversight under the National Credit Union  
13 Administration, NCUA, or other agency with expertise in  
14 the financial supervision field, such as the Office of  
15 Commissioner of Financial Institutions of Puerto Rico  
16 or that reforms the Cooperative charters to reflect  
17 oversight and methodologies comparable to those of the  
18 NCUA.

19 Third, the Fiscal Plan should be amended to  
20 outline the scope of activities that should be  
21 addressed through a request for external assistance  
22 from federal agencies or through the use of external

1 contractors. In addition, current law limits COSSEC's  
2 ability to provide the necessary and adequate health to  
3 Cooperatives that may need it. COSSEC, FAFAA and its  
4 advisors have identified the legislative changes that  
5 will enable COSSEC to provide the regulatory assistance  
6 required to mitigate the effect of any losses on Puerto  
7 Rican debt.

8 The Board has also worked with the government and  
9 its advisors to identify the best way to ensure  
10 independent, unbiased decision making necessary to  
11 deploy COSSEC's program. To support that program, the  
12 Fiscal Plan must be modified to incorporate the  
13 following amendments that describe legislation the  
14 government will submit to the legislature.

15 First, the COSSEC's enabling act be amended to  
16 provide that during the implementation of the Fiscal  
17 Plan, the government will constitute a Committee  
18 composed of the President of the COSSEC Board, the  
19 Executive Director of FAFAA and the Commissioner of  
20 Financial Institutions as Mr. Portela said earlier, in  
21 order to ensure independent management and decision  
22 making of COSSEC's assistance program. The Committee

1 should marshal the regulatory and supervisory expertise  
2 of the Office of the Commissioner of Financial  
3 Institutions to assist with the implementation of the  
4 Fiscal Plan.

5 The committee shall supersede the COSSEC Board and  
6 its powers will be exercised by a majority of its three  
7 members. The committee will be in effect during the  
8 implementation of the Fiscal Plan.

9 Second, to facilitate the assistance program  
10 described in the Fiscal Plan, that the Cooperative  
11 Savings and Credit Unions Act be amended to authorize  
12 the Cooperative to issue preferred shares in an amount  
13 in excess of the amount of its common stock. In  
14 addition, that the act and the COSSEC enabling act be  
15 amended to expressly authorize COSSEC to sell the  
16 assets of a Cooperative to a non-cooperative entity in  
17 the event that COSSEC orders the liquidation,  
18 consolidation or merger of such cooperative.

19 Third, that Act 220 and 2015 must be amended in  
20 order that COSSEC's regulatory powers over a  
21 Cooperative are not limited in any way due to a  
22 Cooperative's investments in bonds or notes issues by

1 the Commonwealth or its instrumentalities.

2 In light of these findings, I'd like to recommend  
3 that the Board certify the COSSEC Fiscal Plan with  
4 these amendments to provide a more detailed  
5 implementation plan to outline a more robust vision for  
6 long-term reform and to describe and submit the  
7 necessary legislation that will enable COSSEC to assist  
8 Cooperatives to its fullest capacity.

9 CHAIRMAN CARRION: Thank you, Ms. Jaresko. Before  
10 we move on the public comment section, another question  
11 has been posed by Ms. Matosantos.

12 MS. MATOSANTOS: Sorry, but just as follow-up  
13 question. You know, I appreciate your work in  
14 analyzing the Fiscal Plan and the suggestions and  
15 changes here. Anything else that we need to be keeping  
16 in mind to ensure that we're staying ahead of this and  
17 that we are keeping the interests of depositors, that  
18 COSSEC is keeping the interests of depositors first and  
19 foremost as it thinks about carrying out its duties.

20 MS. JARESKO: I think besides legislation, these  
21 amendments to the Fiscal Plan, what is going to be most  
22 critical is implementation and having a specific plan,

1 specific named persons and dates to ensure that we are  
2 working on time.

3 MS. MATOSANTOS: Thank you.

4 CHAIRMAN CARRION: Thank you, both. Now, I'd like  
5 to open the floor for public comments. Each person  
6 will have up to three minutes to express their views.  
7 Any person interested in a turn, please stand up and  
8 once I recognize you, we will turn the microphone on  
9 and you will begin your questions or exposition.  
10 Please state your full name and your affiliation if you  
11 have one and speak as clearly as possible.

12 MR. MUDD: Good morning.

13 CHAIRMAN CARRION: Good morning.

14 MR. MUDD: John Mudd and I have a question as to  
15 the -- there's a \$533 million and I was wondering if  
16 that's to cover the losses of the credit union members,  
17 number one. And number two, has there been an  
18 evaluation of the probability of the RSA, if it is  
19 approved, to its continued payment since it depends on  
20 the municipalities and the public corporations of  
21 paying their debts.

22 MALE: The \$533 million that you mentioned, yes,

1 it does deposits as well as any capital shortfalls  
2 resulting from any restructuring of the Puerto Rican  
3 debt.

4 MR. PORTELA: In terms of, I think I expressed  
5 this earlier, the stress scenarios did not include the  
6 RSA for GDB. As of right now, we're in the midst of  
7 legislation for GDB RSA and we're planning accordingly  
8 to close this transaction in the next few months.

9 CHAIRMAN CARRION: Thank you. Anything else, Mr.  
10 Mudd?

11 MR. MUDD: Well, don't you expect, the last answer  
12 was not an answer at all, but that's okay.

13 CHAIRMAN CARRION: Any additional questions from  
14 those present? Very good. Let's proceed to discussion  
15 and consideration for certification of the proposed  
16 Fiscal Plan for the Public Corporation and Supervision  
17 and Insurance Cooperatives, COSSEC. In light of the  
18 importance of the decision by the Board that will be  
19 taken today, I would like to ask for any Board members  
20 that would like to express any additional views.

21 Let's begin with the representative of the  
22 Governor of Puerto Rico. I would like to offer that

1 opportunity to Mr. Christian Sobrino.

2 MR. SOBRINO: Thank you, Mr. Chairman. I'd like  
3 to first congratulate the teams of FAFAA and the team  
4 of COSSEC who have worked for the past month to prepare  
5 a Fiscal Plan that adequately protects the Cooperative  
6 movement of Puerto Rico which is key to our economy.  
7 It is key to our communities throughout the island and  
8 provides credit and banking services to a large part of  
9 the population, more than a millions and that has been  
10 relevant to every consideration we've had in other  
11 parts of the government, including the GDB and the  
12 central government. To the extent I think that they  
13 have done outstanding work and the implementation of  
14 their Fiscal Plan will be carried out in an effective  
15 plan. So, thank you again, Gerry, Dino, and the COSSEC  
16 team.

17 CHAIRMAN CARRION: Thank you, Mr. Sobrino. Would  
18 any additional Board member like to speak and express  
19 themselves about this topic? On the basis of the  
20 report presented by the Board's Executive Director, on  
21 the proposed Fiscal Plan for COSSEC and her  
22 recommendations including the proposed amendments

1 summarized in her presentation, the Chair requests from  
2 the Executive Director whether she would like to  
3 propose a resolution for the Board to consider and vote  
4 upon?

5 MS. JARESKO: Yes, Mr. Chair. I'd like to propose  
6 a resolution and request that Mr. El Koury read the  
7 same into the record.

8 MR. EL KOURY: WHEREAS, on June 30, 2016, the  
9 Federal Puerto Rico Oversight Management and Economics  
10 Stability Act, PROMESA was enacted; and,

11 WHEREAS, Section 101 of PROMESA created the  
12 Financial Oversight and Management Board for Puerto  
13 Rico; and,

14 WHEREAS, Section 201 of PROMESA establishes a  
15 multi-step procedure for the development, review, and  
16 approval of fiscal plans for covered territorial  
17 instrumentalities requiring that one, the proposed  
18 fiscal plan be submitted to the Board; two, the Board  
19 must review the proposed plan and determine whether it  
20 satisfies PROMESA's requirement or that it does not, in  
21 which case the Board must issue a Notice of Violation  
22 and recommended revisions, giving an opportunity to

1 correct the violations; three, revised proposed plan be  
2 then submitted to the Board; and four, if there is a  
3 failure to submit timely a proposed plan and the Board  
4 determines in its sole discretion satisfies PROMESA's  
5 requirement, the Board shall develop and submit to the  
6 Governor and the legislature, its own compliant Fiscal  
7 Plan; and,

8 WHEREAS, on August 1st, 2017, the Board received a  
9 proposed Fiscal Plan for the Public Corporation for the  
10 Supervision and Insurance of Cooperatives, COSSEC; and,

11 WHEREAS, after reviewing the proposed Plan with  
12 the Governor's representatives and analyzing and  
13 deliberating over it with the Board's members,  
14 economists, consultants and attorneys, the Board  
15 recommended revisions to the same and gave the  
16 Governor's representatives the opportunity to revise  
17 the proposed Fiscal Plan; and,

18 WHEREAS, representatives of the Governor and the  
19 Board's experts, consultants and attorneys engaged in  
20 an extensive discussions about the proposed Fiscal Plan  
21 and voiced concerns about the plan, resulting in  
22 further changes incorporated into the proposed Plan;

1 and,

2 WHEREAS, on August 4, 2017, the Board held an open  
3 meeting in which the Governor's representatives  
4 presented the final proposed Fiscal Plan to the Board  
5 and the Public; and,

6 WHEREAS, the Board has had the opportunity to  
7 consider the latest proposed plan and discuss it with  
8 its experts, consultants and attorneys and believes  
9 that with certain amendment, the Plan complies with  
10 PROMESA; and,

11 WHEREAS, the Board provided an opportunity for  
12 public comment on the proposed Fiscal Plan and on the  
13 Board's recommended modifications to such Fiscal Plan;  
14 and,

15 WHEREAS, after substantial deliberations, the  
16 Board has determined to approve and certify the latest  
17 proposed Plan as modified by the following amendments:

18

19 Amendment number one: Impact of a more extensive  
20 and realistic resource plan made (inaudible) an updated  
21 stress scenarios.

22 The Fiscal Plan should be amended to include a

1 detailed implementation plan for the Coop Self program  
2 that is also based primarily on updated stress  
3 scenarios and includes efficient human and financial  
4 resource requirements, internal and external necessary  
5 for the success of the program.

6 The plan should confirm the ability to deploy  
7 resources and the processes for coordinating with  
8 internal and external partners, define decision making  
9 processes for deciding and prioritizing liquidity or  
10 capital infusions for Cooperative consolidation or  
11 wind-down resolutions, address the potential for  
12 greater scope and speed of intervention due and define  
13 a contingency plan if requirements for capital  
14 liquidity assistance exceed COSSEC and partner  
15 resources.

16 Amendment number two, long-term vision for reform.

17 This compliance should be amended to include a reform  
18 plan that redefines the mission and governance of  
19 COSSEC's to eliminate conflicting regulatory and  
20 insurance missions and (inaudible) or moves  
21 Cooperatives after completion of the COSSEC assistance  
22 program to federal charters and oversight under the

1 National Credit Union Administration, NCUA, or another  
2 agency with expertise in the financial supervision  
3 field such as the Office of Commissioner of Financial  
4 Institutions of Puerto Rico, or that reforms  
5 Cooperative charters to reflect oversight and  
6 methodologies comparable to those of the NCUA. The  
7 goal should be a once and done approach to structural  
8 reform for both COSSEC and the corporate entity  
9 supervising COSSEC.

10 Amendment number three, engagement with external  
11 partners. This COSSEC plan should be amended to  
12 outline the scope of activities that should be  
13 addressed when request for external assistance from  
14 federal agencies including the NCUA, the Office of the  
15 Commissioner of Financial Institutions of Puerto Rico,  
16 or through use of external contractors. This amendment  
17 should indicate the scale of external help needed,  
18 should resolve problems in the system widely and the  
19 resources and mechanism for contracting should federal  
20 help be unavailable or inadequate.

21 Amendment number four, Governor's reform. The  
22 composition of COSSEC's Board of Directors and COSSEC

1 Board (inaudible) resulting conflicts of interest that  
2 could prevent COSSEC from not exercising its regulatory  
3 powers. Therefore Act 114 of 2011 as amended, the  
4 COSSEC Enabling Act, must be amended to provide that  
5 during the implementation of the Fiscal Plan, the  
6 Governor will (inaudible) a committee composed of the  
7 President of the COSSEC Board, the Executive Director  
8 of the Puerto Rico and Financial Advisory Authority,  
9 FAFAA, and three, the Commissioner of Financial  
10 Institutions for Puerto Rico. The Committee shall  
11 marshal the regulatory and supervising expertise of the  
12 Office of the Commissioner of Financial Institutions to  
13 assist with the implementation of the Fiscal Plan.

14 The Committee shall supersede the COSSEC Board and  
15 its powers will be exercised by a majority of its three  
16 members. The term of the Committee should be  
17 (inaudible) with the implementation of the Fiscal Plan.

18 Also to avoid any statutory inconsistencies and  
19 impossible authorities of the Cooperative to develop a  
20 commission created pursuant to Act 247-2008, related to  
21 COSSEC, shall be dormant while the Committee is in  
22 effect. And under Amendment number five, Coop Self

1 program, access to liquidity. To facilitate the Coop  
2 Self program described in the Fiscal Plan, Act 2.5-  
3 2002, as amended, the Coop's Act, must be amended to  
4 authorize a Coop to issue preferred shares in an amount  
5 in excess of the amount of its common stock in order to  
6 provide a Cooperative system, access to more sources of  
7 liquidity, the COSSEC act and the enabling act must be  
8 amended to expressly authorize COSSEC to sell the  
9 assets of a coop to a non-coop entity in the event that  
10 COSSEC orders liquidation, consolidation or merger of  
11 such Coop.

12 Amendment number six, COSSEC's oversight  
13 authorities relating to a Coop's holding of government  
14 securities, Act 220-2015 must be amended in order that  
15 COSSEC's regulatory powers (inaudible) are not limited  
16 in any way due to a Coop's investments in bonds or  
17 notes issued by the Commonwealth or its  
18 instrumentalities. Implementation plan and revised  
19 Fiscal Plan. The government shall present to the Board  
20 a plan to implement the above amendments not later than  
21 30 days from the date of adoption of said amendments  
22 and a revised Fiscal Plan that complies with the

1 measures described in said amendments no later than 15  
2 days thereafter, which revised Fiscal Plan shall be  
3 subject to the Board's approval; and,

4 NOW THEREFORE, it is hereby resolved that the  
5 Board approves and certifies the latest proposed Fiscal  
6 Plan for COSSEC pursuant to PROMESA Section 201(e) as  
7 modified by amendments described above; and,

8 IT IS FURTHER RESOLVED that the Board shall issue  
9 a compliance certification for such Fiscal Plan as  
10 amended to the Governor and the legislature pursuant to  
11 PROMESA Section 201(e).

12 Thank you.

13 MS. MATOSANTOS: Mr. Chair, I'd like to move for  
14 adoption of the resolution to certify the Fiscal Plan  
15 of COSSEC as amended.

16 MR. GARCIA: Mr. Chairman, I will second that  
17 motion.

18 CHAIRMAN CARRION: I'd like a voice vote, please.  
19 Those in favor, please say yes.

20 (Chorus of yeses)

21 CHAIRMAN CARRION: All members having voted --  
22 thank you. All members having voted in favor of the

1 motion, the resolution is approved, and has been passed  
2 unanimously. Now, let us move on to the discussion of  
3 pension reform. I would like to ask member Andrew  
4 Biggs to give us an update regarding the work the Board  
5 has been doing with respect to pension reform in Puerto  
6 Rico.

7 MR. BIGGS: Thank you, Mr. Chairman. As you all  
8 know, when the Board certified the Commonwealth's  
9 Fiscal Plan, it amended it to include changes to Puerto  
10 Rico's government pension systems as part of the  
11 Board's mandate to provide for adequate funding of the  
12 public pension systems under PROMESA. These changes  
13 dealt principally with a system-wide overhaul to  
14 accomplish three things.

15 First, to fund existing pension obligations on  
16 what's called a pay as you go basis, which means that  
17 the government will pay benefits to retirees directly  
18 as those benefits come due rather than attempting to  
19 pre-fund the future benefits via a retirement systems'  
20 investment fund. This aspect would be accomplished  
21 through recently introduced legislation. The following  
22 two aspects of pension reform will be accomplished by a

1 plan of adjustment that the Board is actively working  
2 on at this time.

3 The second aspect is to enroll both active  
4 employees and newly hired workers in a true defined  
5 contribution retirement system in which each employee  
6 has an individual account that segregates their  
7 contributions, both from the government and from the  
8 funds of other employee accounts and protects  
9 employee's contributions to pay for their own future  
10 retirement benefits.

11 Finally, reform will ensure that all newly hired  
12 employees are enrolled in social security. While most  
13 Puerto Rico government employees pay into social  
14 security and will receive benefits from it when they  
15 retire, most teachers, police officers and judges are  
16 not enrolled in social security. Enrolling newly hired  
17 employees and potentially current employees as old as  
18 age 40 in social security would provide those employees  
19 with a more solid and more diversified sources of  
20 income in retirement.

21 Finally, the Board's amendment to the  
22 Commonwealth's Fiscal Plan provided for reduction in

1 benefit outlays of 10 percent by fiscal year 2020 to  
2 ensure the systems can meet their obligations. These  
3 pension benefit reductions would be enacted in a  
4 progressive manner with protections to ensure that no  
5 retiree is pushed below the federal poverty line as a  
6 result of these reductions.

7 In sum, the philosophy behind our approach is  
8 we're trying to end the government's decades long  
9 practice of making promises for pensions that it is not  
10 able to keep. The pension systems will not look as  
11 attractive going forward but they will be more solid  
12 and employees will be more confident that they can  
13 receive the benefits they've come to expect.

14 As part of our continuing dialogue with  
15 stakeholders, representatives of the Board preview  
16 these changes with advisors of the official retiree  
17 committee and the Title III case for the Commonwealth.

18 To provide more detailed information, we have prepared  
19 and today are releasing an explanatory memorandum in  
20 Spanish and in English that describes the changes to  
21 the government's pension systems and provides clarity  
22 with respect to the various aspects of these measures.

1 CHAIRMAN CARRION: Thank you, Andrew. I neglected  
2 to thank Mr. Portela and Mr. (inaudible) and his  
3 colleagues from COSSEC for their presentation so thank  
4 you very much. Thank you, Andrew, for presenting the  
5 Board's position and now, Mr. Christian Sobrino would  
6 like to comment on the Board's position.

7 MR. SOBRINO: Okay. And thank you, Mr. Chairman.  
8 I'd like a moment to comment on the public policy of  
9 the government of Puerto Rico regarding pension reform  
10 as it's being included in the legislation that's being  
11 worked now through the legislative process locally.  
12 The key aspects of the Puerto Rico pension system  
13 reform included in the bill provide for the protection  
14 of workers from the insolvency of the retirement  
15 systems. The employee retirement system would become  
16 insolvent in August and the teachers' retirement system  
17 would become insolvent in September (inaudible). The  
18 government is committed to funding 100 percent of  
19 accumulated benefits for teachers and government  
20 employees. Those people who have spent their life in  
21 service for Puerto Rico should be made whole. The new  
22 law is designed to assume the payment of pensions by

1 the pay/go system which maintains benefits accumulated  
2 to the date the law is enacted for all employees. For  
3 teachers, the defined benefit remains as it is.

4 The payment of pensions to existing retirees was  
5 assumed by the general fund on July 1st since the  
6 retirement systems are unable to meet the payments. In  
7 addition to the pay/go system, we will create a new  
8 defined contribution plan, much like a 401K fund in the  
9 private sector. It is specifically contemplated under  
10 our Fiscal Plan. Employee contribution to this new  
11 plan are already being segregated for this purpose and  
12 will be managed externally. Under this plan, the  
13 retirement savings of government workers and teachers  
14 in Puerto Rico will be segregated from government funds  
15 and managed by a third party external manager with deep  
16 expertise in managing public pension funds. The fund  
17 manager will be selected as part of a competitive  
18 process. It will be the employer's responsibility to  
19 segregate these funds and the government of Puerto Rico  
20 will have not access to them. In fact, the employer  
21 become personally liable if the funds are not  
22 segregated.

1 Relocate all retirement system employees. As part  
2 of a rightsizing measure of the administrative function  
3 any of the employees who work at the retirement system  
4 will be relocated to other government agencies through  
5 the use of a single employer government labor reform  
6 that was recently enacted. As part of this initiative,  
7 we are establishing the retirement committee of the  
8 government of Puerto Rico. As an eleven member  
9 committee made up of both public and private sector  
10 representatives, as Executive Director of FAFAA,  
11 Executive Director Portela will serve as president of  
12 the committee. That is what is included in the bill  
13 and I thought it was adequate to include that in the  
14 public discussion today.

15 CHAIRMAN CARRION: Thank you very much, Mr.  
16 Sobrino. Would any additional board members like to  
17 comment?

18 MS. MATOSANTOS: I'd like to speak to that. I  
19 appreciate the public policy interest in honoring 100  
20 percent of pension obligations and commitments made to  
21 date. I find that interesting in light of the fact  
22 that the initially submitted Fiscal Plan assumed the

1 reduction in pension benefits and the certified Fiscal  
2 Plan that the Board is operating from and that all of  
3 us are operating from as it is the Plan that is  
4 certified decidedly reflects the amendments that were  
5 adopted which include, you know, a ten percent  
6 reduction as outlined by Mr. Biggs and as will be  
7 further described in the paper that is going to be  
8 released later today. I, you know, appreciate the  
9 interest in maintaining the retirement security. I  
10 appreciate the fact that the retirement benefits  
11 average around \$14,000 and the role of those retirement  
12 benefits in terms of the expenditures by retirees in  
13 Puerto Rico as well as the contributions that have been  
14 made, it's good that contributions are now being  
15 segregated as recommended by the Board and as reflected  
16 in the budget going forward. But, unfortunately, we  
17 find ourselves in a situation where honoring 100  
18 percent of the obligations is not workable or, you  
19 know, equal treatment of all of the different folks who  
20 have received promises from the government of Puerto  
21 Rico and are not in a position for those to be honored.  
22 The package as outlined by Mr. Biggs that is

1 consistent with the certified Fiscal Plan and with the  
2 amendments that were adopted with consent at the time,  
3 is the responsible way of moving forward to ensure that  
4 promises are aligned with available resources and that  
5 they're honored on a going forward basis.

6 CHAIRMAN CARRION: Thank you, Ms. Matosantos.  
7 Would you like to comment on that, Mr. Sobrino?

8 MR. SOBRINO: Yes. We will be honoring,  
9 (inaudible) the public policy of the government of  
10 Puerto Rico, it will be legislated. It will be part of  
11 the law of the land here and we will comply with the  
12 funding requirements necessary to keep those promises.  
13 Again, we can have a discussion on that but that is the  
14 policy of the government.

15 CHAIRMAN CARRION: Thank you very much. Any  
16 additional comments from board members? Let's move on  
17 then to discussion of rightsizing measures in the  
18 Commonwealth Fiscal Plan. As you know, the Board's  
19 actions -- I'd like to turn to the Board's actions to  
20 implement the rightsizing measures that we approved on  
21 March 13th of 2017 as part of the certified Fiscal Plan  
22 for the Commonwealth of Puerto Rico.

1 By way of background during the certification  
2 process of the Commonwealth Fiscal Plan, we agreed with  
3 the Governor that our fundamental goal for promoting  
4 structural balance and achieving near term liquidity  
5 over the next three years was to reduce the overall  
6 size of government. In discussing this problem, we  
7 agreed that reducing the size of government was  
8 important, not only to achieve fiscal discipline but  
9 also to encourage a greater share of private sector  
10 development and employment. In pursuit of these goals,  
11 we agreed that rightsizing would include reduction of  
12 subsidies in both personnel and non-personnel measures  
13 to be taken over three years to accomplish an overall  
14 30 percent reduction in the government's operating  
15 expenditures. It was with these shared goals that on  
16 March 13th, 2017, the Board delivered to the Governor  
17 and the legislature its certification of the Fiscal  
18 Plan subject to the inclusion of two amendments as part  
19 of the Fiscal Plan.

20 One of those amendments, the furlough amendment,  
21 stated that the furlough program shall take effect on  
22 the first of July, 2017, unless the Board determined in

1 its sole discretion that all of the following  
2 conditions have been met.

3 Number one, submission of an implementation plan  
4 with \$851 million in rightsizing measures for fiscal  
5 year 2018; and

6 Number two, submission of a liquidity plan with  
7 \$200 million in additional cash reserves by June 30th,  
8 2017.

9 The Board extended the deadline for receiving  
10 these plans from April 30th, 2017, to June 15th, 2017  
11 to allow sufficient time to develop the implementation  
12 plans that are required by the agreed-to Fiscal Plan.  
13 The Board has carefully reviewed the plan submitted by  
14 the government to determine whether they meet the  
15 criteria set forth in the agreed Fiscal Plan. In light  
16 of this background, I would like to ask our Executive  
17 Director, Ms. Jaresko, to describe our review of the  
18 government's plan and present the conclusion of the  
19 Board regarding implementation of the rightsizing  
20 measures contained in the agreed-to Commonwealth Fiscal  
21 Plan. Ms. Jaresko.

22 MS. JARESKO: Thank you, Mr. Chair. First of all,

1 we recognize that the government has made significant  
2 progress in enacting meaningful spending controls to  
3 curb Puerto Rico's history of poor fiscal discipline  
4 and in demonstrating a commitment to bringing spending  
5 in line with Puerto Rico's dire fiscal reality.

6       Notwithstanding these encouraging steps, however,  
7 I'd like to share the Board's perspective on the path  
8 forward. When the Board certified the Fiscal Plan for  
9 the Commonwealth of Puerto Rico, it did so under the  
10 belief that all of Puerto Rico's stakeholders not only  
11 hoped for and deserve but require material change to  
12 the way the government operates. The government has  
13 grown to an unsustainable and unaffordable size and  
14 that trend needs to be reversed starting now.

15       The rightsizing measures were a strategic  
16 objective in and of themselves. Reducing the size of  
17 the Puerto Rican government is not only a means of cost  
18 containment, it is a path towards more reasonable  
19 management of and improvement in the quality of  
20 government services. To accomplish the step change  
21 that is necessary, we need to think differently.  
22 Simply put, we need to adopt a new normal. As with any

1 major transformation, rightsizing the government will  
2 not be easy and we need to think about not only what we  
3 are not going to do anymore, but also what we are going  
4 to do differently and how we are going to translate  
5 these changes into savings.

6 The savings targets laid out in the Fiscal Plan  
7 for fiscal year '18 are just the beginning. The amount  
8 of rightsizing savings the government will need to  
9 achieve to meet its fiscal targets for fiscal year '19  
10 and fiscal year '20 more than double. The only way the  
11 government will achieve these levels of savings is to  
12 begin now, not only removing the obvious areas of  
13 excess in agencies but laying the groundwork for  
14 structural changes to the way it approaches the  
15 delivery of services, staffing, procurement and other  
16 operating norms. It will be difficult to identify what  
17 needs to change and how but it will be significantly  
18 more challenging to execute on that plan.

19 We are pleased to see this government's efforts to  
20 change the status quo but also acknowledge that all  
21 transformations of this scale have deep complexities  
22 and unforeseen hurdles. It is our goal to help ensure

1 the administration is as prepared as possible for this  
2 effort and the Board has evaluated the submitted  
3 rightsizing plans in accordance with that objective.

4 The Board used the standard set of criteria to  
5 evaluate the rightsizing implementation plans described  
6 as follows:

7 First, rightsizing efforts must have a clear path  
8 to implementation. Second, they must represent  
9 permanent and recurring savings. Third, they must  
10 ultimately lead to a sustainable reduction in the size  
11 of the government either through reducing, eliminating  
12 or otherwise changing the nature of services delivered.

13 Let me explain what each of these means.

14 A clear path to implementation includes the  
15 following: the sources of savings is clearly  
16 identified and the savings estimates are based on  
17 reasonable assumptions. Discrete steps to execution  
18 are outlined with a defined owner for each. The  
19 timeline to implementation is feasible and the  
20 implementation costs are identified including both one  
21 time and run rate costs.

22 To be recurring and permanent, the second

1 criterion, the initiative must be characterized by one  
2 or more of the following: a statutory change, a  
3 regulatory change, an issuance of a permanent order,  
4 OMB strict controls or other centralized government  
5 controls or obvious high switching costs, for example  
6 capital investment that would make reversal difficult.  
7 To lead to a sustainable reduction in the size of the  
8 government, the initiative must exhibit a clear and  
9 direct impact on the number and nature of services  
10 provided and /or improvement in the operating model  
11 that enables greater efficiencies. This includes the  
12 implementation of best practice operating models, for  
13 example, centralized procurement, elimination of non-  
14 critical services or change in services or service  
15 level reductions to reflect fluctuating demand or a  
16 more realistic level of demand, for example, lower  
17 utilization of hospitals, schools of population decline  
18 as recently reported by the Secretary of Education.

19 Over the past months, we have worked closely with  
20 the government to understand and assess the plans they  
21 submitted on June 15th for rightsizing according to the  
22 criteria just described. Starting on the left side of

1 the chart with the rightsizing target of \$851 million  
2 as described in the certified Fiscal Plan, we then add  
3 in the reserved reallocations to reach the revised  
4 target as agreed to by the government of \$880 million.

5 The government was able to demonstrate a clear path to  
6 recurring and permanent changes reflected through a  
7 reduction in the size of the government for \$662  
8 million of the \$880 million. That \$662 million is  
9 comprised of \$188 million of savings derived from  
10 personnel measures and \$33 million derived from  
11 additional non-personnel measures. And lastly, the  
12 government reduced a total of \$441 million in direct  
13 subsidies financed by the central government. The  
14 government's effort to develop and share these plans is  
15 a strong indicator of the changing tide in Puerto Rico.  
16 Unfortunately, a gap of \$218 million against the \$880  
17 million rightsizing target still remains as shown in  
18 red. The government's recent announcement that it  
19 intends to implement an incentivized transition program  
20 which could produce significant long-term savings is an  
21 important and promising step in the right direction if  
22 paired with the specifics of which government services

1 will be discontinued, externalized or implemented  
2 differently. Even under the most optimistic of  
3 scenarios, however, the incentivized transition program  
4 will not produce budgetary savings in this fiscal year  
5 fiscal year 2018. Therefore, despite the encouraging  
6 news, it does not alter the Board's conclusion that the  
7 furlough program is necessary this fiscal year to  
8 achieve the rightsizing targets in the Fiscal Plan.

9 After careful and deliberate consideration, it is  
10 the Board's determination that the government must plan  
11 for and execute a furlough program commencing on  
12 September 1st, 2017. The implementation of this  
13 furlough program must result in a net savings of at  
14 least \$218 million for the fiscal year 2018. The Board  
15 will be communicating in writing this determination to  
16 the Governor.

17 In light of the significant progress the  
18 government has made on rightsizing, we want to be clear  
19 that the furlough program being outlined here will have  
20 a far smaller impact on the average public employee  
21 than the one originally contemplated in the Fiscal  
22 Plan. To meet the gap in rightsizing initiatives, this

1 would represent up to a two day per month furlough for  
2 all government employees, with the exclusion only of  
3 front line police and only for the period from  
4 September through the end of fiscal year 2018. This is  
5 in contrast to the furlough program that the certified  
6 Fiscal Plan had incorporated which included four days  
7 per month over the course of the entire fiscal year.  
8 For the average government employee, the substantial  
9 work that was done by this government means a total of  
10 no more than 20 days over the remainder of the fiscal  
11 year versus what was originally envisions as nearly 50  
12 days. The Board is therefore reducing the size of the  
13 furlough program but not repealing it.

14 As the government designs the furlough program, it  
15 is advisable that it adhere to the following  
16 principles: prevent adverse effect on public safety or  
17 critical health services; minimize the impact on any  
18 single government employee, including but not limited  
19 to requiring the participation of all government  
20 employees with the only exceptions being those required  
21 to satisfy the principle of preserving public safety;  
22 and, minimize the crude liability of different

1 furloughs by establishing strict criteria for any  
2 deviation from a standard furlough schedule.

3 Perhaps most important, we want to make clear that  
4 these furloughs are not permanent and it is entirely  
5 within the control of the government to bring them to  
6 an earlier end. The furlough program required by the  
7 Fiscal Plan will remain active until two criteria are  
8 met. First, the required savings of \$218 million have  
9 been achieved or are reasonably expected to be achieved  
10 based on actual fiscal year to date and projected  
11 fiscal year performance; and two, the Board determines  
12 in its sole discretion that the government has made  
13 material and sufficient progress toward identifying  
14 opportunities, developing the plans and beginning to  
15 execute the transformational changes required to truly  
16 right size the government as I have previously  
17 described.

18 Separately, I am announcing that the Board is not  
19 taking any action or requiring that the government  
20 taking any action with respect to Christmas bonuses at  
21 this time. However, we will be monitoring the  
22 government's progress on implementing rightsizing

1 measures including compliance with the furlough program  
2 and make a determination regarding Christmas bonuses in  
3 September.

4 CHAIRMAN CARRION: Thank you, Ms. Jaresko. A few  
5 members have some questions regarding your  
6 presentation.

7 MR. GARCIA: Yes, Mr. Chair, if I may, I would  
8 like to ask a question of Ms. Jaresko. So aside from  
9 the \$200 million in the liquidity plan that was one of  
10 the requirements of the amendment that as I understand  
11 the government has provided in line with the Fiscal  
12 Plan, how much confidence do you have in the financial  
13 controls with regards to the overall budget and the  
14 liquidity of the Commonwealth?

15 MS. JARESKO: As we think about controls over  
16 budget and liquidity, there are three key things that  
17 matter to us: visibility, reporting that is accurate  
18 and timely and effective management. Historically,  
19 Puerto Rico has not had adequate controls which has  
20 been a critical contributor to the dire financial  
21 situation that Puerto Rico finds itself in today. And  
22 while the government has made progress against these

1 objectives, where we are today is still very concerning  
2 and there are still substantial gaps. Yesterday, the  
3 Governor reported that the Commonwealth had \$1.799  
4 billion in cash on hand as of June 30th. While the  
5 Board is pleased with the higher than expected  
6 liquidity balance, the significant variance to prior  
7 expectations highlights the need for more to be done to  
8 ensure transparency, timeliness and accuracy of the  
9 cash forecasting and reporting. Further, to date,  
10 reporting has lacked critical analysis regarding the  
11 variances and the relationship between any one cash  
12 report and Puerto Rico's structural deficit.

13 MS. MATOSANTOS: I have a question. Following up  
14 on Mr. Garcia's question, Mr. Chair, I have a question.

15 CHAIRMAN CARRION: Yes. Go ahead, Ms. Matosantos.

16 MS. MATOSANTOS: Given your experience with  
17 turnaround efforts and what it takes to lead this and  
18 as I appreciate your comments about the fact that  
19 thinking about it is hard, developing the plan is hard,  
20 but implementing is harder, can you talk to us about  
21 what are some measures and some things that you think  
22 are effective in ensuring that, you know, the proof is

1 in fact in the pudding.

2 MS. JARESKO: In my experience, what's become  
3 clear here as time has progressed is that the  
4 Commonwealth is made up of an extraordinary complex set  
5 of inter-related entities that in many cases are  
6 independently managed and then others where there is  
7 some but never complete coordination. And right now  
8 there is no single agency, no group, no person that is  
9 responsible for or has access to a complete picture of  
10 the financial standing and liquidity. As such, one of  
11 the largest gaps around controls that I recommend be  
12 addressed is the ability to have true transparency and  
13 centralized oversight over key budgetary and liquidity  
14 functions across the Commonwealth. When comparing the  
15 situation to other similar municipal corporate  
16 transformations, there have been multiple instances  
17 where an emergency manager or an interim treasury  
18 manager has been appointed to address these issues.  
19 Stepping back to beyond simply establishing appropriate  
20 control mechanisms to provide the necessary  
21 transparency and visibility, it's essential that the  
22 government provides a liquidity plan for all the cash

1 flow of the Commonwealth. To date the information that  
2 is provided by the government has failed to provide a  
3 comprehensive picture of the liquidity flows across all  
4 Commonwealth entities, not just the TSA. In order to  
5 accurately track and evaluate performance, it's  
6 essential that consistent reporting be put in place  
7 across the Commonwealth that has sufficient detail to  
8 monitor and evaluate activity and while some of the  
9 amount of reporting -- some of this reporting has  
10 begun, and that is the good news, a roadmap needs to be  
11 developed for future reporting because it's critical  
12 that we ensure that what we have produced is  
13 comprehensive, reliable, explainable and relatable back  
14 from cash to budget, liquidity to budget.

15 MS. MATOSANTOS: Ms. Jaresko, I really appreciate  
16 your comments because I think it seems -- it's  
17 important to have transparency, it's important to have  
18 information, but it's also, I'm always reminded of the  
19 fact that one data point does not a trend make and  
20 understanding what, why and what it means strikes me as  
21 the critical questions consistent with the three points  
22 as you outlined as important goals in ensuring fiscal

1 discipline (inaudible).

2 CHAIRMAN CARRION: Mr. Sobrino, you will be  
3 recognized shortly. Mr. Garcia, do you have a comment?

4 MR. GARCIA: Yeah. I mean Mr. Chair, if I may, I  
5 mean I believe that there's no doubt that it's critical  
6 to have a timely and comprehensive view of the  
7 government finances and the liquidity position to be  
8 able to achieve the shared goal that both the Board and  
9 the government have to be able to have as much  
10 transparency and visibility as possible. I mean I'm  
11 pleased to hear about the efforts that are being  
12 conducted by the government and the progress that has  
13 been done but it seems that we still require a whole  
14 lot more to be able to achieve that transparency. So,  
15 upon considering the remarks by the Board's Executive  
16 Director about the challenges that we're still facing  
17 with the Commonwealth both budgetary and liquidity  
18 reporting, the oversight and controls, I would like to  
19 propose the following resolution and that resolution  
20 would read as follows:

21 WHEREAS, the Board is tasked with providing a  
22 method for the government of Puerto Rico to achieve

1     fiscal responsibility and access to the capital markets  
2     for which it is critical that the government improve  
3     its fiscal governance, accountability and internal  
4     controls.

5           NOW, THERFORE, IT IS HEREY RESOLVED that the  
6     Executive Director shall one, develop and present to  
7     the Board within 15 days proposals to implement  
8     mechanisms to ensure the effective one, monitoring,  
9     two, oversight, three, transparency, four, reporting,  
10    and fifth, controls in relation to the consolidated  
11    liquidity position and performance against budget for  
12    the Commonwealth of Puerto Rico and to ensure  
13    compliance with implementation of the certified Fiscal  
14    Plan. Two, the Executive Director shall also consider  
15    and recommend to the Board whether it should require  
16    the appointment of a central Commonwealth treasury  
17    manager to oversee the implementation of the Executive  
18    Director's proposal.

19           CHAIRMAN CARRION: There's a motion on the floor.

20           MS. MATOSANTOS: I'd like to second that motion,  
21     Mr. Chair.

22           CHAIRMAN CARRION: I'd like to propose that the

1 motion be approved. Mr. Biggs, would you second the  
2 motion?

3 MR. BIGGS: I second the motion.

4 CHAIRMAN CARRION: Then, I'd like a voice vote  
5 please. Those in favor, say yes.

6 (A chorus of yeses.)

7 CHAIRMAN CARRION: All the members having voted in  
8 favor of the motion, the resolution is approved and has  
9 passed unanimously. Now, the Chair would like to  
10 recognize Mr. Sobrino for some remarks.

11 MR. SOBRINO: Mr. Chairman, I will make my remarks  
12 but I would like as a member of the Board to have the  
13 same opportunity to ask the Executive Director certain  
14 questions before my remarks.

15 CHAIRMAN CARRION: Go ahead.

16 MR. SOBRINO: Preferably it would be before that  
17 resolution. Executive Director, can we agree that the  
18 liquidity forecast of the Board in March was that the  
19 Commonwealth of Puerto Rico would have \$230 million  
20 liquid by June 30th?

21 MS. JARESKO: Yes, that was the forecast of the  
22 Board at the time based on the lack of concrete

1 information and controls that were in place at that  
2 time. And the fact that these two numbers differs is  
3 the point of this discussion.

4 MR. SOBRINO: And can we agree that the current  
5 liquidity shown by the government of Puerto Rico has  
6 demonstrated that that forecast by the Board was wrong?

7 MS. JARESKO: Yes, again I repeat and underline,  
8 it was wrong because of lack of controls, lack of a  
9 system and today we have another number which we hope  
10 is more accurate but we still have a situation where  
11 the lack of controls and systems are in place.

12 MR. SOBRINO: It's a --

13 MS. MATOSANTOS: If I -- if I -- sorry, hold on  
14 for one second. If I may, Ms. Jaresko, just a point of  
15 clarification, the forecast of \$291 million was the  
16 forecast submitted by the government as part of the  
17 certified Fiscal Plan so it was not a Board forecast.  
18 Just making sure we are working from the same set of  
19 data.

20 MR. SOBRINO: It was also part of the Board  
21 forecast and that is what I have been told by everybody  
22 involved and I would appreciate --

1 MS. JARESKO: I think -- I think --

2 MR. SOBRINO: -- and I would appreciate --0

3 MS. JARESKO: Christian. Christian --

4 MR. SOBRINO: Sorry, Madam Executive Director, I  
5 would like --

6 MS. JARESKO: The issue isn't whose forecast it  
7 is. It was the forecast.

8 MR. SOBRINO: It was the forecast. I would just  
9 like my turn to ask questions and not have them  
10 interrupted. Can you tell me, Executive Director, do  
11 you think in your opinion that the senior leadership of  
12 the government of Puerto Rico now is committed to  
13 comply with the Fiscal Plan and to right size  
14 government?

15 MS. JARESKO: Mr. Sobrino, you just announced a  
16 pension policy that's in conflict with the Fiscal Plan  
17 so I unfortunately have to say that today, you said you  
18 would not comply with the Fiscal Plan.

19 MR. SOBRINO: But with the rightsizing of  
20 government, do you agree that we have -- are committed  
21 --

22 MS. JARESKO: I believe that you have commitment

1 but I -- but you have not complied with the Fiscal Plan  
2 in terms of the submission of implementable plans by  
3 the date in the Fiscal Plan.

4 MR. SOBRINO: Okay. And can we agree that over  
5 the past weeks, we have been in works and discussions  
6 to establish the timeline and the reporting structure  
7 that you made reference to in your -- in your comments?

8 MS. JARESKO: Yes.

9 MR. SOBRINO: Okay. So, indeed we have been  
10 working on that same reporting structure, timelines  
11 have been provided and are being executed in connection  
12 with the Board.

13 MS. JARESKO: To date, we've been working on a  
14 timeline for monitoring and reporting that's primarily  
15 related to the TSA. As we ask further questions in  
16 this discussion about the broader Commonwealth  
17 position, we came to this point where we need to  
18 broaden and look at controls across the Commonwealth  
19 and not just over TSA.

20 MR. SOBRINO: And timelines have been provided for  
21 that purpose.

22 MS. JARESKO: Yes.

1 MR. SOBRINO: Yes. So, we are working together in  
2 providing that (inaudible)?

3 MR. JARESKO: Yes.

4 MR. SOBRINO: Okay. Now, Mr. Chairman, I would  
5 actually like to make my remarks.

6 CHAIRMAN CARRION: Proceed.

7 MR. SOBRINO: Mr. Chairman and other members and  
8 other colleagues of the Board, Ms. Jaresko and Mr.  
9 (Inaudible), and good morning to everyone else here  
10 today. Today's agenda included as this last item  
11 discussion, public comment and proposed actions  
12 regarding rightsizing measures in the Commonwealth  
13 Fiscal Plan. Yet, Mr. Chairman, discussion, I do not  
14 believe was truly the spirit behind this portion of the  
15 event.

16 Anonymous statements provided to the press over  
17 the past few days from within sources identified in the  
18 Board, in the personnel, indicated that the matter was  
19 set. The Board wishes today to decree and to impose a  
20 furlough program to the employees of the government of  
21 Puerto Rico. The fact that no agency of the government  
22 was provided a turn to counter present Ms. Jaresko's

1 presentation underlines this concern. Now, Mr.  
2 Chairman, to step back a moment, over the past seven or  
3 eight months, the Board and the government have been  
4 able to work together and overcome differences to push  
5 forward an agenda of fiscal responsibility and economic  
6 stability for the island. And to be clear, the  
7 government, its officials and myself are still and  
8 continue committed to working with the Board and to  
9 meet our targets in the Fiscal Plan, the certified  
10 budget and the Governor's public policy platform.

11 But Mr. Chairman, today on this issue of  
12 furloughs, the government understands that the line  
13 needs to be drawn. There will be no furloughs. You  
14 can take that to the bank and the reasons for that are  
15 many.

16 The first reason is that the public and the people  
17 of Puerto Rico must be assured that there's only one  
18 government in the island and that government is led by  
19 Ricardo Rossello. This fact is recognized and  
20 enshrined in PROMESA as the legislative history of  
21 PROMESA indicates. Through the words of former  
22 commissioner Pedro (Inaudible), the Board will provide

1 guardrails but will not supplant or replace the  
2 territory's elected leaders who will retain primary  
3 control over budgeting and fiscal policy making.  
4 Indeed, in one event where I was present you described  
5 it as setting the size of the room but we get to put  
6 the furniture. This is also the spirit within Section  
7 205 of PROMESA regarding recommendations to promote  
8 financial stability and management efficiencies.

9 Section 205 specifically contemplates measures on  
10 personnel such as furlough as recommendations. As  
11 again Mr. (Inaudible) pointed out in Congress the goal  
12 of Section 205 is not to have parallel governing  
13 structures. The Board does not have the power to  
14 impose its recommendations and in that effect PROMESA  
15 is clear.

16 The second reason is that there also must be  
17 assurance that there is one Fiscal Plan and it is this  
18 document right here. Unilateral amendments in a  
19 separate document are recommendations even if under the  
20 Board's letterhead. The Fiscal Plan provides  
21 rightsizing targets and the government's commitment to  
22 reform the government's framework and operation.

1 Indeed, the Fiscal Plan specifically includes a  
2 provision expressly stating the Fiscal Plan objectives  
3 the government may consider additional measures. The  
4 government of Puerto Rico is committed to rightsizing.  
5 The Governor ran on a platform of rightsizing  
6 government that predates the Board and predates the  
7 enactment of PROMESA itself.

8 The government will meet its fiscal goals but  
9 under the policy established by the government itself  
10 consistent with the Fiscal plan.

11 Since day one, this administration and the  
12 legislature have unenacted unprecedented measures to  
13 place Puerto Rico on the path to fiscal health. This  
14 includes significant cuts to payments to the general  
15 fund that have already today impacted every sector of  
16 the government, including municipalities, NGOs, public  
17 corporations, and the central government itself.

18 The numbers speak for themselves, from the \$230  
19 liquidity projection. For June 2017 the number was  
20 surpassed by almost \$1.6 billion and the sources of  
21 those funds have been shown to the Board.

22 This places Puerto Rico in a much better position

1 to face the grave fiscal challenges ahead and that we  
2 have publicly recognized, like the payment of pensions  
3 and health care.

4 To be clear, we beat the expectations once already  
5 and I commit that we will beat those expectations  
6 again. The Board recognized this on June 30th when it  
7 certified the \$230 billion cash reserve.

8 Mr. Chairman, we will right size the government of  
9 Puerto Rico because we want to and because we need to  
10 for the good of Puerto Rico, not because of the minutes  
11 of an (inaudible) position. We have provided numerous  
12 reports, working papers and other identified sources  
13 for those cuts or those reforms that need to be done,  
14 but we did not participate in the scoring process.

15 Third, we have started on a path of renewing trust  
16 in our tax system, in our financial information and we  
17 have established again unprecedented cost controls that  
18 this Board has even acknowledged in its report to  
19 Congress.

20 It's not perfect but it's definitely much better  
21 than what was there before. Rome was not built in a  
22 day and the government of Puerto Rico will not be

1 reformed in two days. The government will commence its  
2 reporting responsibilities under PROMESA and the Fiscal  
3 Plan in the upcoming weeks as established in those  
4 documents and then we would have a basis of facts on  
5 which to decide what recommendations are appropriate  
6 and which are not.

7 Furthermore, we cannot take lightly the impact on  
8 the economy that this furlough program could have in  
9 conjunction with the cuts that we have already  
10 established in the budget and that we are committed to  
11 taking into effect. This impact may actually unravel  
12 the progress that we have already made.

13 Again, I must reiterate the position -- repeat the  
14 position of the Governor of Puerto Rico. There will be  
15 no furloughs and although we may have a contentious  
16 discussion on this effect, please rest assured that our  
17 commitment to cooperate in all other efforts remains  
18 intact. Thank you.

19 CHAIRMAN CARRION: Thank you, Mr. Sobrino. Before  
20 I open the floor for public comments, would any  
21 additional Board members like to make a statement or  
22 speak?

1 MS. MATOSANTOS: I have some comments and I don't  
2 know if any of my colleagues have comments. We can --

3 MR. GARCIA: I also have some comments, Mr. Chair.

4 CHAIRMAN CARRION: Mr. Garcia, let's begin.

5 MR. GARCIA: So, first of all, thank you, Mr.  
6 Sobrino for the passionate appeal and all the items  
7 that he has discussed but I think it's important that  
8 for the background, for the knowledge of the Board,  
9 maybe for the knowledge of Mr. Sobrino, who was not  
10 involved in some of the discussions. I want to go back  
11 to some of the history and how the Fiscal Plan was  
12 certified because I think this is going to be very  
13 critical to be able to shed light. So under the  
14 discussions in the process of certifying the Fiscal  
15 Plan, the Board imposed certain conditions, which those  
16 conditions were critical and essential in order to  
17 achieve the certification of the Fiscal Plan. There  
18 would have not been a certification by this Board of  
19 that Fiscal Plan if those conditions would have not  
20 been included. Those were conditions that were not  
21 (inaudible), they were not imposed. I mean those were  
22 conditions that were presented to the government.

1 Those conditions were discussed with FAFAA. Those  
2 conditions were discussed with the Governor's  
3 representative and those conditions were even some of  
4 them modified.

5 Those conditions were discussed about the  
6 difficulty of the implementation of some of those  
7 measures and the government requested time in order to  
8 be able to represent that they would be able to comply.  
9 And the Board, I mean the Board wishes this government  
10 to be very successful and to be able to implement and  
11 the Board has and wants to have faith that the  
12 government will be able to comply.

13 But the truth of the matter is the following. I  
14 mean we're already on the second month of the fiscal  
15 budget in which a lot of implementation plans were  
16 presented. I mean 75 percent of those plans have shown  
17 that you can get to 75 percent of what those  
18 requirements are. But there's 25 percent in which to  
19 the satisfaction of the Board after thorough review and  
20 conversation, after extending time so the government  
21 could provide more details on those plans. I mean  
22 those details were not able to be provided.

1           The concern of this Board in terms of our  
2   responsibility is that the effect on the government  
3   employees and on Puerto Rico could be significantly  
4   larger if for some reason which there is a lot of  
5   difficulty in being able to implement solutions. I  
6   mean we all know this is not an easy task. This is a  
7   very difficult task, if in the case that the furlough  
8   is not commenced at this appropriate time, that amount  
9   could be significantly higher. I mean is for some  
10   reason, it is missed. I mean instead of talking about  
11   two days, it is four days. I mean that's a risk that  
12   would be too large. It would be too significant. I  
13   mean this Board has spent a lot of time just going  
14   through every single plan and every single measure. We  
15   want the government to be successful. I mean that is  
16   our job. That's the common interest of all of us here.  
17   But it cannot be at the expense of putting at risk, I  
18   mean further reductions that have planned and that --  
19   and what was included in that Plan. So, I think it's  
20   important to weigh all these requirements as obviously,  
21   I mean this Board would want to have as we have tried  
22   to have a good solution having worked with the

1 government. But this was not a recommendation. I mean  
2 this was a condition to the Plan. This is something  
3 that was consented by the government. I mean there was  
4 no opposition when these conditions were part of that  
5 certified plan. The government representative didn't  
6 say anything. That was March of this year and then  
7 several months passed. We sent the letter to the  
8 government and nobody said that there was an opposition  
9 and that has been an integral part of that. So, I just  
10 want to be able to state all these elements because I  
11 think this is important that this is nothing that is  
12 being done in a capricious way. I mean the government  
13 has known about these. We have had plenty of  
14 discussions of it. You have been working very hard in  
15 trying to comply with those conditions. You have  
16 complied with most of the conditions but unfortunately  
17 not all of them.

18 MR. SOBRINO: Mr. Garcia, I would like to just  
19 state as a matter of record and I am authorized to  
20 state as a matter of record, that the Governor did not  
21 agree to those conditions. Those conditions were  
22 notified to him unilaterally and since the moment that

1 the Fiscal Plan was certified with those "amendments,"  
2 the Governor has been clear that he does not agree with  
3 them. And that is also fact. Regarding the other  
4 items you have mentioned, we have been providing a lot  
5 more line items and a lot more descriptions of how we  
6 plan to get to our target. The scoring process the  
7 Board took upon itself did not include us in the  
8 discussion until later in the -- late in the process  
9 and at that time, a decision had essentially already  
10 been made.

11 So, again, I am happy that we share a commitment  
12 to the fiscal soundness of the island, but we cannot  
13 agree and we cannot implement this program and we  
14 won't. That is the policy; that is the determination  
15 of the government. We take seriously the risk that you  
16 mentioned. It is something that we have taken into  
17 account in making this determination but again, those  
18 conditions were notified but they were never agreed to  
19 and the government has been expressly clear on that  
20 since day one after they were made public.

21 CHAIRMAN CARRION: Thank you, Mr. Garcia. Thank  
22 you, Mr. Sobrino. Do you have something to add, Ms.

1 Matosantos?

2 MS. MATOSANTOS: Sure, Mr. Chair. I want to  
3 concur with Mr. Garcia's points, recollection and  
4 restatement of how we arrived to this point and the  
5 elements of the Commonwealth's Fiscal Plan. I also  
6 want to reiterate and build on the fact that we  
7 recognize the significant work that has been done to  
8 date, the significant progress that has been made, the  
9 significant effort that it's taken to get to a place of  
10 having a certified Fiscal Plan, having a budget that's  
11 generally consistent with that certified Fiscal Plan  
12 and moving in a positive direction. It's not -- as I  
13 think about it, it's not a question of whether there's  
14 a movement in the right direction. It's a question of  
15 degree. It's a question of risk tolerance. It's a  
16 question of an assessment of what are the implications  
17 if efforts fall short. I am reminded of Ms. Jaresko's  
18 comments and consideration that the furlough program  
19 based on those efforts would be substantially smaller  
20 than what was envisioned at the time of certification  
21 of the Fiscal Plan.

22 You know, I am also reminded of her point and I

1 wholeheartedly concur with this that the work is really  
2 hard and substantially harder than one -- than one  
3 things initially. The turnaround efforts, the extent  
4 to which, the way in which I think of it is one has to  
5 manage everything you can possibly manage because  
6 frequently you end up getting curve balls and they  
7 don't necessarily go in the direction they're needed  
8 and the repercussions, the human impact of error is way  
9 too high. It's too late at the last moment to realize  
10 that there's not enough room and that one is facing  
11 either a bigger furlough program or one is facing  
12 challenges in choosing people or, you know, meeting  
13 other critical elements that we're ensuring that the  
14 pension systems can be able to continue making those  
15 payments. Having lived through the cash management  
16 crisis, having lived through the turnaround crisis, I  
17 have an acute sense of what it's like to get the call  
18 from your Director of Corrections that their food  
19 vendors are looking at stopping delivery of food and  
20 what that's going to mean to the institution. That  
21 means to ensure that people can continue to eat. So,  
22 the risk is too high. The, you know, the considerable

1 effort has been made. Mr. Sobrino spoke to the  
2 economic impact of measures and the economic impact is  
3 significant and one that I very much keep in mind but  
4 beyond this for me, it's the human impact. There's  
5 definitely human impact with measures and there's a  
6 human impact associated with reductions in recognize  
7 it, see it with pensioners, see it with employees, see  
8 it in all the different areas of folks that rely on the  
9 critical services the government provides.

10 But the human impact is greater when not enough is  
11 done to manage and thinking about the implementation  
12 plans that we have received, it's just in my view not  
13 there and a furlough program is necessary to ensure  
14 that the budget savings are achieved.

15 And beyond that, I think about it from the  
16 perspective that year one of this Fiscal Plan is the  
17 easiest of the three years. Getting to year three, the  
18 level of transformation required, what it means to  
19 restructure the (inaudible) program so that you can  
20 achieve savings of close to 30 percent from today's  
21 level of expenditure, what it means to transform  
22 government to be able to maintain essential services in

1 a responsible manner at 30 percent less costs, it is  
2 very difficult to develop, let alone actually  
3 implement.

4 So, while I recognize the human impact, while I  
5 recognize the difficulty of this and while I recognize  
6 -- and I'm pleased with the progress that allows for a  
7 reduction of the size of the furlough program, it is my  
8 view that it's imperative that we move forward pursuant  
9 to the certified Fiscal Plan and our determination of  
10 what is needed to achieve and restore fiscal balance in  
11 the islands.

12 MR. SOBRINO: Ms. Matosantos --

13 CHAIRMAN CARRION: Mr. Sobrino, I'd like to  
14 recognize that Mr. Biggs --

15 MR. BIGGS: Thank you. I would like to just make  
16 a quick point regarding pensions. The Fiscal Plan as  
17 submitted by the Governor back in March I believe  
18 contains around a two and a half percent cut in pension  
19 benefits. That is not a level that the Board would  
20 have approved the Fiscal Plan under. We amended it to  
21 include a ten percent reduction in benefits.  
22 Regardless, the position of the government today

1 appears that there will be a zero percent cut in  
2 pension benefits and so, you know, even to the degree  
3 we're referencing the Fiscal Plan as submitted by the  
4 Governor, I don't believe the Governor's current  
5 position is consistent with that plan much less with  
6 the plan as amended by the Board.

7 CHAIRMAN CARRION: Thank you, Mr. Biggs. Mr.  
8 Sobrino, would you like to say something?

9 MR. SOBRINO: Yes, I would like and with this, I  
10 think I can close and allow the public to make  
11 additional remarks. And my remarks are in response to  
12 the human element referenced by Ms. Matosantos. I have  
13 lived my adult life in Puerto Rico under crisis. I  
14 have seen every administration. They have all promised  
15 to establish fiscal responsibility in one year. None  
16 has been able to cut multi-year appropriations. None  
17 has been able to resolve the issues with the GDB. None  
18 have been establishing the controls on tax breaks that  
19 we have established. None have been able to pass labor  
20 reform in under a month. None have been able to pass  
21 comprehensive permitting reform in under a month. None  
22 has been able to do the things that we have been able

1 to do. So, if we're talking about the facts and the  
2 human element, especially in a population that sees its  
3 family members and sees its friends and its colleagues  
4 move to the state side. Every month we have done  
5 everything. We are a present commitment that has not  
6 been seen in this island since probably the times of  
7 (inaudible). So, I can tell you, we will prove this  
8 assumption wrong. We will succeed and the government  
9 of Puerto Rico will be reform as we in Puerto Rico see  
10 fit.

11 CHAIRMAN CARRION: Thank you very much, Mr.  
12 Sobrino. No, I'd like to open the floor for public  
13 comment. Each person has again up to three minutes to  
14 express their views. Any person interested in a turn,  
15 please stand up and once I recognize you, we will turn  
16 the microphone on and it will be taken to your seat.  
17 Please state your name and your affiliation if you have  
18 one and speak as clearly as possible.

19 MR. ROTELL: Jerry Rotell. May I approach the  
20 table?

21 CHAIRMAN CARRION: Of course.

22 MR. ROTELL: I don't have three minutes but I just

1 wanted to first of all congratulate my brother at arms,  
2 Christian Sobrino for the extremely passionate and  
3 factual presentation. Anyway, just wanted to express a  
4 few things regarding the presentation given by  
5 Executive Director Natalie Jaresko. We disagree in a  
6 few things, obviously. We, the government of Puerto  
7 Rico, we have implemented aggressive legislative  
8 actions for the past seven months, over 30 of them,  
9 state of orders all geared toward fiscal  
10 responsibility. We are -- we have the political will.  
11 We are aligned with the legislative assembly as well,  
12 all towards, you know, complying with the Fiscal Plan.  
13 In terms of, you know, they saying that it's an issue  
14 under non-personnel rightsizing, I mean we just  
15 approved the budget a month ago. You're just giving us  
16 a month to make a decision. So, you know, by Section  
17 204(b), I think it's (b) or (a), you know, the  
18 government of Puerto Rico has to comply with the Board  
19 to provide quarterly reports, which all will be due  
20 October 15th and that way the Board can make a decision  
21 whether the government of Puerto Rico is complying with  
22 or not complying with the different measures in terms

1 of cash, budget (inaudible), et cetera, et cetera. So  
2 you're making a decision on August 4th that's two and a  
3 half months before the deadline of the first quarterly  
4 report. So, I mean that kind of concerns me a little  
5 bit.

6 Third, you know, I don't know if you analyzed  
7 this, but possibly the furloughs would impact  
8 economically for the next two fiscal years around \$600  
9 million in the economy. How are we supposed to, you  
10 know, swim if you're putting down pressure of \$600  
11 million in the economy? So that's for me, that's kind  
12 of interesting as well.

13 In terms of the, you know, you've said about  
14 collaboration, we received the scorecard in an informal  
15 way about 10 days ago. How are we supposed to counter  
16 argue or collaborate, you know, in terms of the non-  
17 personnel measures? That's something that also we  
18 (inaudible).

19 So, you know, just want to express, I think we've  
20 had a great collaboration for the past seven months.  
21 We've accomplished a lot -- seven fiscal plans,  
22 liquidity plans, bridge reports, you name it, approved

1 budget, and this item specifically I guess we have not  
2 collaborated directly. And as what I expressed, you  
3 know, that with the government, we have the political  
4 will. We will do this. We will (inaudible) on this.

5 And, to finish it off, you know, I just kind of  
6 wanted to talk about the scorecard specifically. You  
7 know, just to, if the Board can express a little bit on  
8 their methodology on how you went about scoring these  
9 measures. I kind of wanted a little bit more feedback  
10 on that. That will be all. Thank you.

11 CHAIRMAN CARRION: Thank you for expressing your  
12 views. Does anybody have any additional comments? Mr.  
13 (Inaudible)

14 MALE: Yes, my name is Jorge (inaudible). I am  
15 the executive director of (inaudible) and I just wanted  
16 to add our perspective on the different topics that  
17 have been discussed today. Of course, you know, the  
18 discussion going on most recently highlights the  
19 challenges that Puerto Rico faces and the job and the  
20 intention of both the Board and the Governor and this  
21 team to come together and to address those problems.

22 But, as we went through the different topics, I

1 just want to highlight one that has not come up and  
2 I'll start with the pension reform. We applaud,  
3 (inaudible) applaud that pensions be paid to the  
4 fullest possible extent to the government employees.  
5 And, within (inaudible) there are a majority probably  
6 of the 60,000 people that are also retired and are  
7 suffering a much more dramatic impact on their  
8 pensions. The typical Puerto Rico bondholder saved up  
9 their money during their career and invested it.  
10 Unfortunately, in hindsight, 100 percent in Puerto Rico  
11 bonds, which currently are not paying. So, the average  
12 government pensioner gets around \$1200 a month. That  
13 average I don't think is going to be effective in any  
14 instance. But, that's not very different from the  
15 average that a Puerto Rico bondholder would expect to  
16 receive from his investment in bonds. Yet the Fiscal  
17 Plan, which proposes ten percent cuts perhaps in  
18 pensions, two percent cuts in pensions or 100 percent  
19 payment. In contrast to that, in dramatic contrast to  
20 that, the person hold Puerto Rico bonds, a resident in  
21 Puerto Rico, would face a 76 percent cut in what he  
22 gets from -- what he or she gets from their investment

1 in Puerto Rico bonds saving all their life. Now, the  
2 Fiscal Plan, you know, the essential government  
3 component units, spend - in the Fiscal Plan are  
4 spending in the area of \$17 to \$18 billion currently,  
5 of which according to the Fiscal Plan, 96 percent is  
6 essential, although we haven't gotten a clear  
7 definition of what is essential. And overtime, comes  
8 down slightly but then increases to about \$21 billion  
9 in year 10. So within that, all the expenses go down  
10 and then go back up. The debt service is still held as  
11 you know around \$787 million of the \$3.4 billion  
12 average that those 10 years would require.

13 So, what I'm highlighting here is that there are  
14 60,000 people in Puerto Rico and of those, not all are  
15 that needy but certainly the very wealthy of those,  
16 even if there were 5,000 which there are not, there  
17 would still be 54,000 that do depend on their savings.

18 And those are not being - those are being affected  
19 dramatically as I said, in the Fiscal Plan proposing 74  
20 percent cut in those payments, you know, the debt  
21 service payments, and those are not being mentioned.

22 And the payments to a local bondholder represent

1 more than one and half percent GNP. That's going to be  
2 cut by 76 percent, that one and a half. So, how are we  
3 going to have economic growth -- that all these things  
4 affect economic growth, not just the government  
5 spending. The payment of the debt service affect  
6 economic growth dramatically, over one and a half  
7 percent. And the other part is people are -- the local  
8 population at one point held over 30 percent of the  
9 total outstanding debt. In 2012, it was \$25 million of  
10 the approximately \$70 held by Puerto Ricans. So, to  
11 return -- that 30 percent of the borrowing came from  
12 the local market. To the extent those bondholders are  
13 not treated more equitably, more reasonably, they will  
14 never return to lend money to the government.

15 So, return to capital markets is one of the  
16 Board's objectives as well as balancing the budget.  
17 But, we just don't see how those can -- how economic  
18 growth and return to capital markets can be achieved  
19 given the Fiscal Plan. And again, we applaud paying  
20 the pensions. We recognize the Coops who is the only  
21 sector within the financial industry in Puerto Rico  
22 that has grown since the last five years, they've

1 grown. All the other sectors have reduced their assets  
2 by almost 50 percent. So, it's dramatic that the Coops  
3 are there and they are a big bondholder as was  
4 mentioned here. They have \$965 million at stake here.  
5 So, that's what I wanted to bring up which hadn't been  
6 mentioned in the discussion. Thank you.

7 CHAIRMAN CARRION: Thank you, Mr. (inaudible).  
8 Would anybody like to express -- anybody else like to  
9 express their views regarding the furlough issue? No.  
10 Well, thank you very much.

11 Now, I'd like to move on. On the basis of the  
12 report presented by the Board's Executive Director on  
13 the implementation of the furlough program, the Chair  
14 requests from the Executive Director whether she would  
15 like to propose a resolution for the Board to consider  
16 and vote upon?

17 MS. JARESKO: Yes, Mr. Chair. I would like to  
18 propose a resolution and I would request Mr. El Koury  
19 to read the same into the record.

20 MR. EL KOURY: On June 30, 2016, the Federal  
21 Puerto Rico Oversight Management and Economics  
22 Stability Act, PROMESA was enacted; and,

1 WHEREAS, Section 101 of PROMESA created the  
2 Financial Oversight and Management Board for Puerto  
3 Rico; the Board, and,

4 WHEREAS, on March 13, 2017, after holding a public  
5 hearing, the Board certified the Governor's proposed  
6 Fiscal Plan for the Commonwealth subject to certain  
7 amendments adopted at the March 13, 2017 meeting; and,

8 WHEREAS, on April 15, 2017 and May 31st, 2017, the  
9 Board approved certain revisions to the previously  
10 certified Fiscal Plan for the Commonwealth and  
11 recertified the Fiscal Plan as so revised; and,

12 WHEREAS, the certified Fiscal Plan for the  
13 Commonwealth of Puerto Rico provides for the  
14 implemental of a furlough program if the Board  
15 determines in its sole discretion that certain  
16 conditions are not met; and,

17 WHEREAS, the Board has determined in its sole  
18 discretion that such conditions have not been met.

19 NOW, THEREFORE, IT IS HEREBY RESOLVED that the  
20 government must plan for and execute a furlough program  
21 commencing on September 1, 2017, the implementation of  
22 which must result in a net savings of at least \$280

1 million for fiscal year 2018 and two, the furlough  
2 program will remain active until two criteria are met.

3 One, the required savings of \$280 million having been  
4 achieved or are reasonably expected to be achieved  
5 based on actual fiscal year to date and predicted  
6 fiscal year performance and, two, the Oversight Board  
7 determines in its sole discretion that the government  
8 has made material and sufficient progress toward  
9 identifying opportunities, developing plans and  
10 beginning to execute transformational changes required  
11 to truly right size the government.

12 CHAIRMAN CARRION: Thank you, Mr. El Koury. I  
13 move that that resolution be approved.

14 MR. BIGGS: I second the motion.

15 CHAIRMAN CARRION: I would like to ask for a voice  
16 vote.

17 Those in favor of yes - in favor, please say yes.

18 (A chorus of yeses.)

19 CHAIRMAN CARRION: All members having voted in  
20 favor of the motion, the resolution is approved and it  
21 has passed unanimously. Since we have no other matters  
22 to cover, I move that we adjourn this meeting.

1 MS. MATOSANTOS: I second that motion.

2 CHAIRMAN CARRION: I would like to ask for a voice  
3 vote.

4 Those in favor, please say yes.

5 (A chorus of yeses.)

6 CHAIRMAN CARRION: All members having voted in  
7 favor -- thank you, all members having voted in favor,  
8 the meeting is now adjourned.

9 Thank you very much.

10 (Whereupon, the meeting was adjourned.)

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